SaskEnergy

SASKENERGY ANNUAL REPORT

BREAKING GROUND

2008

VISION We create superior value through innovative energy solutions.

MISSION Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

SAFETY: We never compromise the safety of our employees and the public.

COMMUNITY: We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

RECOGNITION: We take time to recognize the individual and team contributions of our employees.

ACCOUNTABILITY: We are accountable for our decisions, our actions and the results.

SPIRIT: We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

COMMUNICATION: We have open, honest and respectful communication that builds strong relationships.

INTEGRITY: We are honest, respectful and apply high ethical standards.

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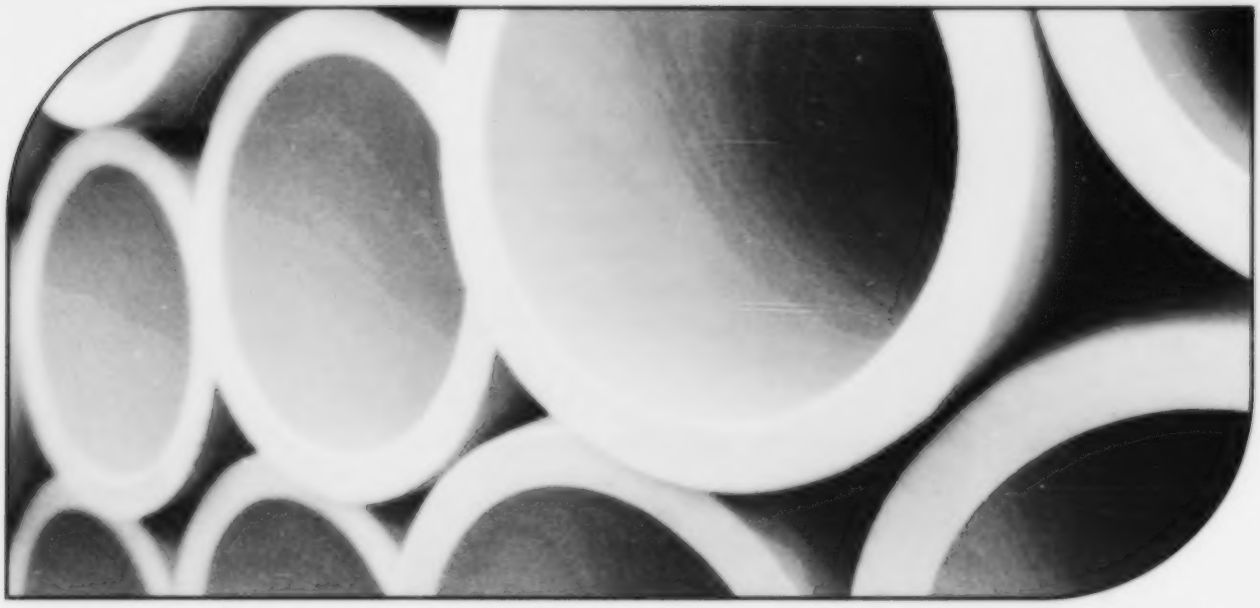
SASKENERGY — BREAKING GROUND



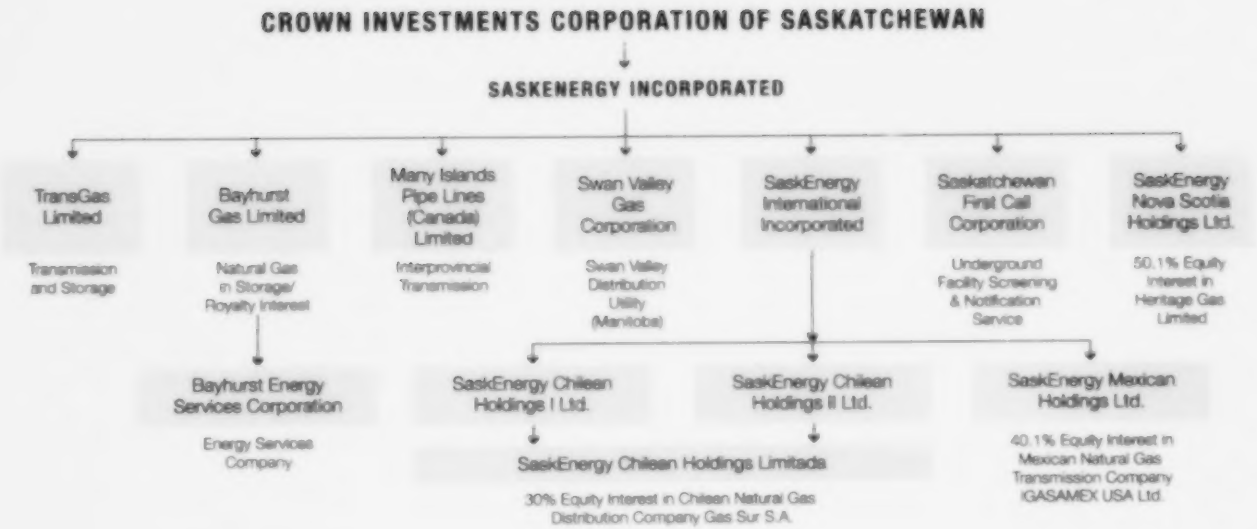
At SaskEnergy, "Breaking Ground" is about doing more than what's expected from a natural gas company. It's about challenging ourselves to find new and innovative ways to support economic development in the Province while never compromising our core strengths of service, safety, reliability and providing value to our customers.

We are operating our natural gas business while experiencing rapid growth throughout our system. Our distribution utility added over 6,000 customers in 2008 in nearly 500 communities, resorts, First Nations and rural areas. We had 40 construction crews working in communities across Saskatchewan at peak periods, including six TransGas crews. This exciting growth creates new opportunities as we challenge ourselves to meet the needs of our largest-ever customer base. We are tasked with providing enhanced services to existing customers, while finding new ways to prepare for future growth. And, one example of how we're moving forward is by forging a path through some of our Province's most challenging terrain from Montreal Lake to La Ronge in order to bring natural gas to communities in northern Saskatchewan.

As a recognized Canadian leader in natural gas distribution, transportation and storage, we are always looking to offer our customers the most cost-effective service without ever compromising safety or reliability. We do this by extending our commitment beyond the natural gas meter. We work with our customers to ensure they are consuming natural gas as efficiently as possible, not just for economic and comfort reasons, but for the larger benefit this has on the environment. We've met this commitment while achieving the lowest natural gas rates when compared to other major utilities in Canada for seven of the last 10 years, including 2008.

And, our commitment doesn't end there. We are keeping our sights focused on the future because we know that in order to stay competitive we must look for solutions to the ever-changing energy demands of our society. We are exploring ground-breaking technology to take our business into this new era. And, we're investing in the communities of Saskatchewan because we know that the true strength of our Province comes from its people.

At SaskEnergy, we're proud of how far we've come and believe that we are well-positioned for developing solutions that will benefit our Province. It is this commitment combined with our service excellence that has us breaking ground now and well into the future.


CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED
TransGas Limited
Transmission and Storage
Bayhurst Gas Limited
Natural Gas in Storage/ Royalty Interest
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
Swan Valley Gas Corporation
Swan Valley Distribution Utility (Manitoba)
SaskEnergy International Incorporated
Saskatchewan First Call Corporation
Underground Facility Screening & Notification Service
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest in Heritage Gas Limited
Bayhurst Energy Services Corporation
Energy Services Company
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Chilean Holdings Limitada
30% Equity Interest in Chilean Natural Gas Distribution Company Gas Sur S.A.
SaskEnergy Mexican Holdings Ltd.
40.1% Equity Interest in Mexican Natural Gas Transmission Company IGASAMEX USA Ltd.

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas distribution utility. SaskEnergy owns and operates the distribution utility which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent body, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows:

TransGas Limited (TransGas) owns and operates the transmission utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities which are integrated with the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

CORPORATE PROFILE

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeast Saskatchewan, which is operated through an unincorporated joint venture with ATCO Midstream Limited (ATCO).

SaskEnergy International Incorporated (SEII) holds SaskEnergy's investments outside of Canada. SEII's primary focus is Chile and Mexico. SEII holds a 30 per cent equity interest in Gas Sur, S.A. (Gas Sur), a natural gas distribution company in Chile, as well as a 40.1 per cent equity interest in IGASAMEX USA Ltd. (Igasamex), which owns a natural gas transmission service company in Mexico.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas as well as a major industrial customer at Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

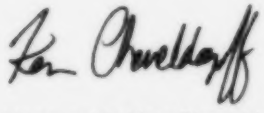
SaskEnergy Nova Scotia Holdings Ltd. (SNSHL) holds SaskEnergy's 50.1 per cent equity interest in Heritage Gas Limited (Heritage Gas), a Nova Scotia natural gas distribution company. Heritage Gas is regulated by the Nova Scotia Utility and Review Board.

March 31, 2009

The Honourable Dr. Gordon Barnhart
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the annual report of SaskEnergy Incorporated for the year ended December 31, 2008, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.



Honourable Ken Cheveldayoff
Minister of Crown Corporations

MESSAGE FROM THE MINISTER OF CROWN CORPORATIONS

It continues to be an exciting, rewarding time for CIC and its 12 subsidiary Crown corporations. Three Crowns were recognized for excellence in diversity by *Maclean's* magazine. In addition, six Crowns were among Saskatchewan's Top 15 Employers for 2009, as selected by the editors of *Canada's Top 100 Employers*. I take pride in the fact that our Crowns' workforces reflect our communities and are recognized as exceptional places to work.

For SaskEnergy, 2008 was a year of strong customer growth and sound financial results. Thanks to a vibrant Provincial economy for the first half of 2008, the Corporation added more new customers to its system than it has in nearly 20 years. Amidst this high customer activity, SaskEnergy delivered exceptional customer service while offering the lowest commodity rates among other major utilities across Canada. And, by partnering with the private sector, the Corporation leveraged its existing expertise to explore new business opportunities for the company, most notably through its partnership with ATCO in the Kisbey Natural Gas Processing Plant. At the same time, the Corporation is known for its strong community presence thanks to such initiatives as the Share the Warmth™ Home Energy Efficiency Project.

My priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. This is a promise our Government made to the people of Saskatchewan, and it is a promise we will keep. A current theme in the Crown sector that I expect to continue is growth. By that I mean the changes required within the Crowns to sustain and support Saskatchewan's economic momentum. These changes range from investing in new infrastructure to expanding various services in line with the demand from both our residential and business communities.

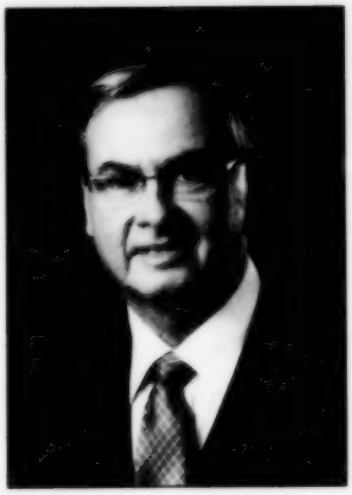
Our new Saskatchewan First investment policy for the Crowns also reflects this theme. The policy recognizes that our growing economy presents increasing opportunity for investing in our own province. We will continue to move in that direction.

SaskEnergy is committed to efficient business management in 2009 in order to provide solid financial returns to CIC and the people of Saskatchewan. Part of this commitment will come from making informed decisions that will allow the Corporation to maintain low and stable commodity rates across the Province. SaskEnergy will also focus on expanding its existing alliances with private sector partners to focus on Saskatchewan-based growth. With a strong strategic direction and a talented management team and workforce, the Corporation is well-positioned to succeed in the midst of global economic uncertainty.

As you will see in this report, our Crown sector is financially healthy and ready to meet the challenges and opportunities of the coming years.

I am pleased to present SaskEnergy's 2008 annual report.

Honourable Ken Cheveldayoff
Minister of Crown Corporations



On behalf of the SaskEnergy Board of Directors, I am pleased to provide my perspective on the Organization's 2008 performance.

We are pleased to see SaskEnergy's focus on strong operational performance in its core utility operations. Management was successfully focused on delivering safe and reliable service at competitive rates in 2008, while maintaining a high grade of customer service. The Corporation's Strategic Plan and reporting scorecard demonstrate its overall achievement of these objectives, which are arguably the most important to its customers.

At the same time, SaskEnergy is playing an important supporting role in building the energy sector within our Province and growing the capacity of the private sector. Relationships such as the SaskEnergy Network of private-sector plumbing and heating companies and the TransGas Customer Dialogue, whereby a proxy of transmission and storage customers mutually discuss policy and rate issues, are illustrative of this approach. We look to the company to productively expand these relationships and others in 2009. New business directions, such as its existing flare gas partnership with ATCO which is slated to expand, should provide SaskEnergy with the opportunity to leverage additional private sector capital and investment in growing Saskatchewan for the future.

The impact of the economy and the industry as a whole on the business will require continued diligent management in 2009. The core utility distribution, transmission and storage businesses are fundamentally well positioned to keep delivering cost-effective customer service and industry-comparable returns through the duration of the downturn. Historically, the company has effectively managed internal and external resourcing to arrive at the most appropriate mix which will become even more crucial should the downturn become more sustained. Longer term, we would share management's view that the natural gas industry is likely to recover significantly, and create additional growth opportunities.

I thank management for its good and cooperative working relationship with the Board of Directors. The focus of the Strategic Plan around future, growth, service and people directions is balanced and provides considerable direction in making sure we all put our efforts in the right place, for the benefit of our customers and our shareholders, the people of Saskatchewan.

Sincerely,

Robert Pletch
Chair, SaskEnergy Board of Directors

PRESIDENT'S MESSAGE

The value of SaskEnergy's strong connections – to our partners, to the private sector and to the customers we serve throughout the Province – was highly evident during the economic fluctuations of 2008.

The significant changes that affected the commodity market, including natural gas, were felt at SaskEnergy and TransGas, as both natural gas users and producers moved from heightened market pricing in the first part of 2008 through a cycle of dampened pricing in the latter part of the year, triggered by the world economic slowdown. The resilience of our Strategic Plan and our partnership model gives us confidence in a bright future. We are ready to keep "breaking ground" for the future, as proven by the following 2008 achievements:

- We served 6,094 new customers with natural gas in 2008, the highest total since the 1980s.
- We continued our commitment toward operational efficiency with the implementation of mobile work dispatch technology that will allow us to deliver better customer service in a timelier manner.
- We are leveraging our core expertise through partnerships with the private sector, including working with ATCO to expand our flare gas capture business in southeast Saskatchewan and a consortium led by the Petroleum Technology Research Centre and other partners on a highly promising project to transport and store carbon dioxide in an underground aquifer.
- Our core distribution and transmission businesses remain fundamentally healthy, as we provide competitive rates to our customers, and competitive returns to our shareholder.

In terms of go-forward strategies, "Our Service" focus is at the forefront. We will continue to concentrate on a high customer service standard with the realization that new solutions will be critical to our success. Within these efforts is the priority of maintaining a safe and reliable pipeline system, some components of which are over 50 years old. Our ability to meet these substantive challenges, and others, is linked both to our skills and experience but also to our success in achieving meaningful external partnerships with communities and businesses around the Province. This is highlighted by the SaskEnergy Network, our private sector plumbing and heating partnership of 138 businesses around the Province, which jointly participates with SaskEnergy in delivering customer energy efficiency programs.

SaskEnergy and TransGas invest more people and capital resources in ensuring safe and reliable natural gas service annually than any other single activity. Such are the responsibilities of operating an integrated 80,000 kilometre system that must transport and deliver natural gas on the coldest days. It is why we use leading-edge technologies to ensure we maintain a system over 50 years old and ensure our employees are trained to implement leading-edge safety practices.

While sometimes that reliability may be taken for granted by our customers, we can never lose the focus of ensuring we both communicate and practice the importance of safety. The tragic Nipawin incident in 2008 certainly recognized the response of our dedicated and well-trained staff as well as emergency responders from Nipawin and the surrounding areas in dealing with the situation. This is why we will continue to invest the necessary time, effort and resources on safety.

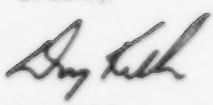
As part of "Our Future" strategy, we continued to touch people across the Province through our community investment program, by participating in 1,321 projects which reached 328 cities, towns and villages in Saskatchewan. The principle of helping communities leverage additional capacity lies at the heart of our program, with no greater illustration being the third annual province-wide Share the Warmth Home Energy Efficiency Project whereby more than 500 internal and external volunteers came together to make energy efficiency improvements for some 500 low-income homeowners across the Province. This special spirit of giving and community engagement is an important part of our culture.

"Our People" strategies have proven effective in meeting the continuing challenge of renewing our workforce. Simply put, we are a younger company, with 17 per cent of our workforce now 30 years of age or under. With our external recognition received in 2008 as a Top 100 employer in Canada, we believe SaskEnergy is positioned to meet future demographic changes. In addition, partnerships have effectively allowed SaskEnergy and TransGas to increase our Aboriginal representation, currently at nearly 14 per cent of our workforce. These efforts have included working with the Dumont Technical Institute and the Saskatchewan Indian Institute of Technologies to recruit candidates for entry-level trades jobs while initiating a new partnership in 2008 with the University of Saskatchewan to stream Aboriginal professionals to our company.

We are excited by the Saskatchewan-based focus of "Our Growth" strategies. While we have already realized opportunities such as flare gas capture and transport, Saskatchewan is presenting several other opportunities in the mid-streaming and storage business that may well allow us the benefit of leveraging our expertise. These ventures will allow us to support further energy-based economic activity within Saskatchewan, including continued focus on private sector partnerships.

I want to thank all of our employees for their efforts in 2008 and all of our over 340,000 distribution, transmission and storage customers. Without all of you, there can be no business. It is my great privilege, and that of the entire executive team, to work in your collective service.

Sincerely,



Doug Kelln
President and Chief Executive Officer, SaskEnergy

FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION*	2008	2007	2006	2005	2004
($ millions)					
Commodity sales	441	400	389	376	387
Gas marketing sales	576	485	594	644	327
Delivery revenue	182	167	153	156	162
Transportation and storage revenue	77	82	86	86	87
Other	41	37	32	37	31
Total revenue	1,317	1,171	1,254	1,299	994
Commodity cost of gas sold	479	373	395	365	349
Gas marketing cost of gas sold	539	450	558	599	290
Operating expenses	269	260	248	258	247
Total expenses	1,287	1,083	1,201	1,222	886
Net income	30	88	53	77	108
Dividends	43	53	35	29	70
Total assets	1,561	1,411	1,327	1,371	1,286
Property, plant and equipment – net	1,008	978	955	947	949
Capital expenditures	124	100	71	59	68

OPERATING STATISTICS	2008	2007	2006	2005	2004
Distribution volumes *(petajoules)*					
Residential	33	30	29	30	32
Commercial	30	29	27	28	29
Farm	3	3	3	4	4
Industrial	72	70	66	66	69
TOTAL	138	132	125	128	134
Transmission volumes *(petajoules)*					
Domestic	216	208	204	201	211
Export	81	121	155	162	147
TOTAL	297	329	359	363	358
Number of customers					
Distribution	342,606	336,512	332,148	329,240	327,586
Transmission	129	129	124	121	108

* Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

FIVE-YEAR OPERATING SUMMARY — DISTRIBUTION

	2008	2007	2006	2005	2004
Sales in million cubic metres[1]	3,675	3,498	3,339	3,411	3,607
Residential annual average usage *(cubic metres)*	3,088	3,025	2,873	3,060	3,287
Degree days[2]	5,990	5,700	5,345	5,577	5,844
PIPELINE					
(kilometres)					
Distribution Utility					
SaskEnergy Incorporated	66,709	66,340	66,043	65,872	65,712
Swan Valley Gas Corporation	120	120	120	120	120
TOTAL	66,829	66,460	66,163	65,992	65,832

[1] Retail, industrial and natural gas marketing.

[2] A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,691.)

FIVE-YEAR OPERATING SUMMARY — TRANSMISSION

	2008	2007	2006	2005	2004
Peak day natural gas flows *(petajoules)*	1.50	1.49	1.53	1.38	1.48
Date of peak day flow	Jan. 28	Feb. 14	Feb.16	Jan.15	Jan. 27
Storage cavern sites	8	8	8	8	7
Storage caverns	26	26	25	24	22
Storage field sites*	3	3	3	3	3
Producing field sites*	1	1	1	1	1
PIPELINE					
(kilometres)					
TransGas Limited					
Transmission	13,592	13,573	13,528	13,482	13,412
Gathering	199	197	197	188	188
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	113	92	92	92
TOTAL	14,339	14,318	14,252	14,197	14,127
COMPRESSOR STATIONS					
TransGas Limited	22	22	22	23	22
Bayhurst Gas Limited	4	4	3	3	3
TOTAL	26	26	25	26	25
COMPRESSION HORSEPOWER					
TransGas Limited	82,200	82,200	82,200	88,325	93,550
Bayhurst Gas Limited	6,835	6,835	6,300	6,300	6,300
TOTAL	89,035	89,035	88,500	94,625	99,850

* Includes Bayhurst Gas Limited.

At SaskEnergy, we strive to be a natural gas industry leader in terms of how we operate our business. The following section highlights some of our major corporate achievements in 2008.

SERVICE DELIVERY

The employees of SaskEnergy and TransGas take pride in their work which involves transporting, storing and delivering natural gas safely and reliably to customers every day of the year. In a world of increasing customer demand, we maintain our focus on customer service. And knowing that our customers will be able to heat their homes on the coldest days of the year is something we can all take pride in.

New Mobile Work Management System – SaskEnergy implemented a mobile work management system in 2008 to create more effective use of technician resources while improving safety processes in situations where employees are working alone. SaskEnergy dispatchers can schedule customer/contractor appointments and adjust assignments as the day goes on by sending work to the nearest employee equipped to do the work, hence reducing the number of vehicle kilometres driven and improving response time. The resulting assignments go to the right person in the right place at the right time.

Ensuring a Safe and Reliable System – TransGas completed over 25 major pipeline integrity projects in 2008, including 63 direct pipeline examinations. One of these projects was the construction of a 6.2-kilometre 10-inch transmission pipeline to accommodate In-Line Inspection (a process where an inspection tool is run through a pipe to determine its integrity) and increase the reliability and security of the natural gas supply to Prince Albert and area. Prior to completing this pipeline in November 2008, there was only a single transmission pipeline as the source of supply for the City of Prince Albert and surrounding communities to the North and East. Thanks to this pipeline addition, the original pipeline was in-line inspected in December 2008.

Diligent Emergency Response – SaskEnergy places the utmost importance on ensuring a safe and reliable system. But when the situation occurs where emergency response is required, the Corporation can rely on its well-trained and responsive staff to ensure that they are doing as much as possible to maintain the safety of the public.

The extremely unfortunate incident at Nipawin on April 18, 2008 reinforced the Corporation's high standard and diligence required for public safety. The incident was handled with a high standard of emergency response and strong communication. SaskEnergy will continue to capture learnings from the incident in order to continue public safety efforts.

SUPPORTING ECONOMIC GROWTH WITHIN SASKATCHEWAN

At SaskEnergy, we are committed to working with the private sector to grow the Province of Saskatchewan. We know that in order to be a solutions-driven company we need to think creatively. That's why we're focused on utilizing our expertise to develop business opportunities in the Province. And, we're exploring innovative partnerships to learn from the expertise of others in the industry, all with the goal of supporting the economic development of Saskatchewan. Within these efforts is a partnered approach of pursuing joint initiatives with private sector companies.

Significant Core Growth – SaskEnergy experienced intense customer growth in 2008 thanks to the high demand for housing stock in the opening half of the year. The company added over 6,000 new customers, including approximately 5,700 new services installed in 490 communities, resorts, First Nations and rural areas. Part of this strong growth comes from the 147-kilometre pipeline extension from Montreal Lake to the La Ronge town site. To the end of 2008, 85 per cent of the four-inch transmission line was completed — including nearly 20 kilometres of natural gas mains in Air Ronge and the Lac La Ronge Indian Band communities. Weyakwin and Ramsey Bay had natural gas flowing to their first customers on November 28, 2008.

Kisbey Natural Gas Processing Plant Expansion – BESCO, a SaskEnergy subsidiary, received approval in 2008 to proceed with an expansion of the Kisbey Gas Gathering and Processing Facility (Kisbey Natural Gas Processing Plant) that it purchased in 2007 as part of a joint venture. Once this expansion is completed by the end of 2009, the plant will allow BESCO to significantly increase its capabilities to capture natural gas that is normally flared into the atmosphere during oil production. This will reduce the amount of carbon dioxide (CO_2) that is currently being emitted into the atmosphere. This business opportunity will also provide an additional revenue stream for oil producers which will allow them to further invest in oil development in Saskatchewan.

The Aquistore Project – SaskEnergy is partnering with the Petroleum Technology Research Centre (PTRC) to research the viability of utilizing deep saline aquifers for the long-term sequestration of CO_2. The Aquistore Project will provide an opportunity for SaskEnergy, and other government and industry participants such as the Consumers' Co-operative Refineries Ltd., Enbridge Inc., Schlumberger Carbon Services, Sustainable Technology Development Canada (STDC) and the Saskatchewan Government, to learn more about the technical, commercial and safety components of carbon capture, transport and storage. The Aquistore Project not only has widespread economic implications but may lead to broad systems supporting the reduction of Greenhouse Gas (GHG) emissions.

EMPLOYEE LEADERSHIP

At SaskEnergy, our employees drive every aspect of our business. Therefore, we believe in developing our employees to achieve a healthy and productive workforce. We know that our employees are the strength and the future of our company. New and experienced employees want to work safely in an environment where their skills and contributions are valued.

The Importance of Safety – Employee safety is paramount at SaskEnergy. In 2008, the company focused on increased identification, communication and assessment of hazards and near-misses as a way to prevent incidents from happening. Since highlighting this initiative, SaskEnergy has seen a significant increase in hazard identification/near-miss reporting. In addition, nine locations across the company have achieved the excellent safety rating of zero lost time injuries, zero preventable collisions and zero medical aids for 12 consecutive months. Congratulations to: SaskEnergy Meter Repair – Saskatoon, South West TransGas District – Success/Maple Creek, West Central TransGas District – Coleville, SaskEnergy Customer Service and Operations – Weyburn, SaskEnergy Place – Regina Head Office, SaskEnergy Customer Service and Operations – Kindersley (24 consecutive months), TransGas Engineering and Operations – Regina (24 consecutive months), Materials Management – Saskatoon (24 consecutive months) and SaskEnergy Customer Service and Operations – Yorkton (24 consecutive months).

Employee Engagement – SaskEnergy was named in *Maclean's* magazine as one of the Top 100 Employers in Canada for 2009. This national recognition demonstrates SaskEnergy's commitment toward creating an engaging environment for 1,100 employees throughout the Province. By becoming a Top 100 Employer in Canada, the Corporation has proven its leadership in attracting and retaining quality employees and in offering them exciting opportunities to build a successful career with the company. This success builds off 20 years of dedication and service from the many hard-working employees around the Province.

Generation Energy – SaskEnergy's young employee network, Generation Energy (Gen-E), is gaining momentum across the Province. In 2008, Gen-E members developed numerous strategic initiatives in the company, all with the goal of enhancing the engagement of SaskEnergy employees age 30 and under. Gen-E offers a variety of learning, development and networking opportunities to its members and is part of a group of initiatives at SaskEnergy that promote a young and diverse workforce. Some of these initiatives include the TAWAW program, a joint partnership with the Dumont Technical Institute/Saskatchewan Indian Institute of Technologies (DTI/SIIT), to attract qualified Aboriginal candidates to SaskEnergy trade and field positions and SaskEnergy Aboriginal Government Employees (SAGE), an important network group for employee success.

POSITIONING FOR THE FUTURE

Financial Strength – SaskEnergy was in good financial health throughout 2008 – its debt to equity ratio at December 31 was comparable to other natural gas utilities in Canada. SaskEnergy also had a solid financial performance in 2008 as net income, before the effects of fair value adjustments, was near budget, and the Corporation was relatively unaffected by the unstable global economic conditions in 2008. This financial strength sets the tone for other major successes that support the Corporation's strong ethical and sustainable operations.

Clean Air and GHG Management – In 2008, TransGas took aggressive steps towards reducing corporate GHG emissions. Three particular initiatives had a large benefit to both the Corporation and to the environment. TransGas used flare stacks to evacuate natural gas from pipes during construction work in order to eliminate large quantities of methane from being vented into the atmosphere. The Corporation completed control package upgrades to automate three compressor engines which also had a significant improvement on combustion efficiency. And, TransGas conducted Thermal Infrared Imaging Surveys at three compressor stations to identify devices which may be venting or leaking natural gas into the atmosphere. These three projects led to a corporate GHG reduction of approximately 10,000 tonnes of Carbon Dioxide equivalent (CO_2e). This is equivalent to the GHG emissions from approximately 1,700 homes for an entire year. As a result of this success, these projects will be expanded in 2009 in order to achieve additional GHG reductions.

SaskEnergy and its Network Members Celebrate 10 years of Success in Saskatchewan – SaskEnergy's unique relationship with independent natural gas retailers and contractors celebrated a decade of success in 2008. The SaskEnergy Network was developed in 1998 as an opportunity to partner together to meet the evolving needs of customers. Forty-seven retailers and contractors joined the SaskEnergy Network 10 years ago, which has grown to include more than 130 members today. Working together over the past decade, SaskEnergy and SaskEnergy Network Members have provided Saskatchewan homeowners and businesses with natural gas appliances, services and energy efficiency programs unparalleled in Canada. This partnership will continue to be a significant contributor to the future success of SaskEnergy's service delivery to customers throughout the Province.

SaskEnergy Hockey Day in Saskatchewan – In 2008, SaskEnergy presented the 1st Annual Hockey Day in Saskatchewan in 43 communities across the Province. The goal of the SaskEnergy Hockey Day in Saskatchewan is to promote the game of hockey, highlight the importance of the local community rink and celebrate the many volunteers who assist in keeping hockey active in their community. SaskEnergy Hockey Day in Saskatchewan is also an opportunity for communities to fundraise for their rinks. This successful initiative is an example of SaskEnergy's Provincial community-based sponsorship program, which invests in over 300 communities throughout the Province every year.

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that impacted the operations and financial results of SaskEnergy and its wholly owned subsidiaries for the year ended December 31, 2008. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects. This style of reporting enables readers to view SaskEnergy from the perspective of management.

This MD&A, together with the Corporation's 2008 audited consolidated financial statements and related notes, form the basis for financial reporting. It contains an in-depth discussion about SaskEnergy's consolidated financial results as well as its liquidity and capital resources. It also includes a brief discussion on the current business environment and how it affected the Corporation's financial results.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. Risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

BUSINESS ENVIRONMENT

Impacts of the Global Economy

During 2008, an uncertain and volatile global economy had a significant impact on most countries throughout the world, including Canada. At the time the economic credit crisis emerged, Saskatchewan was experiencing strong economic growth which had carried over from 2007. As a result, the economic downturn had a much lesser impact on the economy in Saskatchewan. Considering the majority of SaskEnergy's business is conducted within the Province, the adverse affects of the economic situation on the Corporation were limited. However, the global economic instability could place downward pressure on growth expectations for 2009.

The Corporation requires access to credit in order to fund working capital for operations, plus capital for system maintenance, system expansion and business development. During 2008, SaskEnergy continued to have access to credit as the Corporation fulfilled its funding of debt by borrowing from the Province of Saskatchewan. As SaskEnergy's short- and long-term debt requirements do not significantly impact the level of the Provincial Government's total borrowing activity, the Corporation anticipates having continued access to adequate credit throughout 2009.

Similarly, the economic instability did not appear to affect SaskEnergy's customers' abilities to pay bills, as bad debts actually decreased slightly from 2007. In terms of its natural gas price management programs, SaskEnergy conducted business with counterparties in accordance with established risk management policies. These risk management policies include procedures that require ongoing monitoring of the creditworthiness of customers and counterparties and limitations on the amount of credit that can be extended. In the upcoming year, the Corporation will continue to comply with these policies and closely monitor the credit situation of customers and counterparties in order to mitigate the risk of financial losses.

With regard to its liquid assets, such as cash and debt retirement funds, the Corporation is in a position where the risk of financial loss is considered minimal. The Corporation's cash balances are held with Canadian financial institutions that continue to have strong credit ratings. Debt retirement funds are administered by Saskatchewan's Ministry of Finance and are primarily Federal and Provincial Government debt instruments that have relatively low risk.

Overall in 2008, SaskEnergy managed the impact from the global economic situation. As the Saskatchewan economy is linked to the global economy, primarily through exports of goods and services, it is expected that there will be at least some impact on the Province's economic growth in 2009. However, SaskEnergy is well positioned from a financial and operational perspective to provide ongoing safe, reliable service to its customers throughout the Province.

Natural Gas Industry

Natural gas prices in Saskatchewan are determined on the open market and are primarily driven by supply and demand within North America. Natural gas prices were around $6.50 per Gigajoule (GJ) in Western Canada at the beginning of 2008. Colder than normal weather in February and March resulted in an increase in demand. This lead to concerns over the adequacy of natural gas supplies in North America to refill storage over the coming summer. Consequently, prices began to move higher to attract liquefied natural gas (LNG) to North America. LNG is natural gas that has been cooled to a temperature where it becomes a liquid and can then be moved by ship to high demand areas around the globe. LNG was also in low supply in the spring which was reflected by higher LNG prices. This resulted in North American natural gas prices rising to over $11.00 per GJ by the end of June, a 70 per cent increase from the beginning of the year.

The emergence of a global credit crisis led to a fall in financial markets as well as energy prices. Concurrently, economic activity slowed, significantly reducing natural gas demand in the industrial, commercial and power generation sectors in North America. This led to a supply/demand imbalance in the market resulting in natural gas prices falling by the end of the year.

Since SaskEnergy purchases natural gas for its customers on the open market, the Corporation's purchase price of natural gas is subject to market volatility. To help reduce this volatility SaskEnergy has a natural gas price risk management program. SaskEnergy also utilizes storage to ensure safe and reliable service throughout the winter. During the off-peak months of April to October, SaskEnergy purchases more natural gas than its customers use and injects it into storage. SaskEnergy then sells this natural gas to customers during the winter at the cost of purchasing the natural gas in the open market. Typically, natural gas prices tend to be lower during the summer when SaskEnergy injects natural gas and higher during the winter when SaskEnergy withdraws natural gas. However, with particularly volatile natural gas prices in 2008, natural gas prices actually peaked in the summer.

Similar to regulated natural gas utilities in other Canadian jurisdictions, SaskEnergy's mandate is to not profit from nor incur a loss on the sale of natural gas to its distribution customers over the long term as its commodity rate is designed to recover only the cost of natural gas. For the majority of the year, the Corporation was able to maintain a commodity rate of $6.57 per GJ which was significantly below the market price. However, based on elevated prices that occurred in the summer, a commodity rate of $8.51 per GJ was approved and became effective on October 1. SaskEnergy was able to avoid the rate increase for most of the year as a result of its natural gas price risk management program, which shielded Saskatchewan customers from natural gas price volatility experienced in other jurisdictions in Canada and enabled SaskEnergy to provide the lowest commodity rates in 2008 as compared to other Canadian utilities.

2008 WEIGHTED AVERAGE COMMODITY RATE

($ PER GJ)

Based on a Saskatchewan residential consumption pattern and annual usage of 3,200 m^3

Saskatchewan First Investment Policy

In October 2008, the Provincial Government announced its Saskatchewan First investment policy, which focuses on Crown corporations investing in Saskatchewan in conjunction with private sector involvement. A focus on Saskatchewan investment opportunities will add value to the Province through job creation and capital spending.

As part of the Corporation's commitment to the Saskatchewan First investment policy, SaskEnergy will continue to work towards a pragmatic exit of its out-of-Province equity holdings in Heritage Gas (Nova Scotia), Gas Sur (Chile) and Igasamex (Mexico).

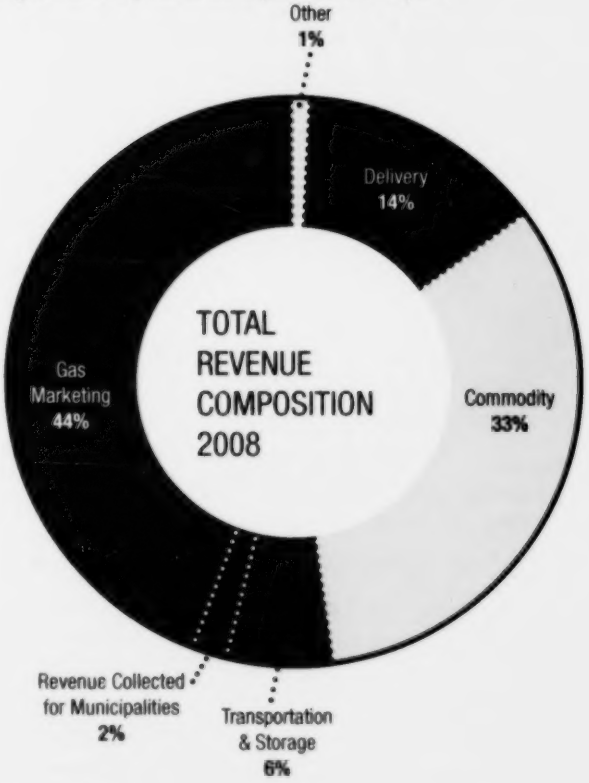
A shifting of growth priorities to Saskatchewan-focused business opportunities is integral to SaskEnergy's growth, and therefore the Corporation is aligned with the Saskatchewan First investment policy. SaskEnergy integrated business development opportunities into its Strategic Plan within the context of a strong Saskatchewan economy and energy sector. These initiatives will be undertaken with private sector involvement in the form of direct and joint ownership.

CONSOLIDATED FINANCIAL RESULTS

The consolidated financial results encompass SaskEnergy and its directly and indirectly owned subsidiaries. SaskEnergy's consolidated group of companies generated net income of $30 million in 2008 and declared dividends of $43 million to CIC.

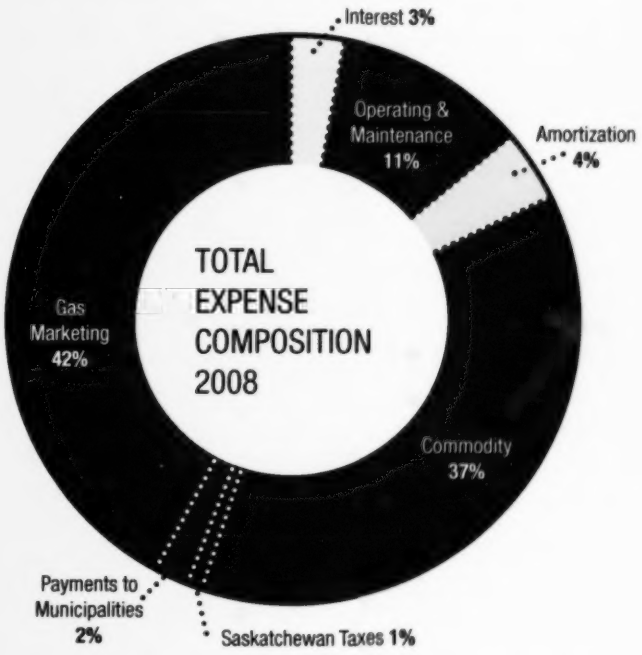
Net Income *(millions)*	**2007**	**2008**
Revenues	$ 1,171	$ 1,317
Expenses	1,083	1,287
Net Income	$ 88	$ 30

Total revenue for 2008 was $1,317 million, 12 per cent higher than 2007, as sales to utility customers and sales for natural gas marketing activities both increased due to higher volumes sold and natural gas prices. Additionally, delivery revenue increased due to growth in volumes of natural gas distributed to customers and higher delivery rates for a portion of the year.



With regard to expenses, higher prices paid for natural gas as well as increased volumes sold resulted in the growth of both commodity cost of gas sold and gas marketing cost of gas sold. Consequently, total expenses were $1,287 million in 2008, a 19 per cent increase from the prior year.

Although total revenue was higher in 2008, it was offset by the increase in total expenses resulting in a decline in net income from $88 million in 2007 to $30 million in 2008. Included in 2008 net income was $25 million of unfavourable fair value adjustments related to financial instruments compared to $20 million of favourable fair value adjustments in 2007. As a result, net income before the impacts of fair value adjustments was $55 million in 2008 and $68 million in 2007. Dividends are paid to CIC based on this figure.



As focus on the environment continues, SaskEnergy expects strong demand for natural gas in 2009. Opportunities in business development will further develop SaskEnergy's business within Saskatchewan while at the same time helping the environment. Expanding demand for natural gas is expected to result in modest growth for the well-established distribution and transmission utilities. The Corporation also anticipates additional margins from gas marketing activities as market opportunities become available. With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a net income target of $65 million, before the effects of financial instruments, for 2009.

Commodity Margin

The commodity rate that SaskEnergy charges distribution system customers for natural gas is designed to ensure that, in the long term, the Corporation neither profits from nor incurs a loss on the sale of natural gas. The price SaskEnergy pays to procure natural gas for its customers in the open market constantly fluctuates throughout the year, whereas the commodity rate remains fixed until a new rate is approved by the Provincial Cabinet.

The Gas Cost Variance Account (GCVA), which is not recorded in the Corporation's financial statements, is used for rate-setting purposes to track the variances between the cost of natural gas sold and the revenue earned through the commodity rate. Balances in the GCVA are either refunded to or collected from customers as part of future commodity rate applications. The GCVA is audited annually by the Provincial Auditor with the financial information and related audit report then provided to the Saskatchewan Rate Review Panel.

During 2008, the commodity rate was $6.57 per GJ from January 1 to September 30 and $8.51 per GJ from October 1 to December 31 for an average commodity rate, including the impact of the natural gas price risk management program, of $7.23 per GJ compared to an average rate of $6.92 per GJ in 2007. The higher average rate combined with increased volumes sold of 61 Petajoules (PJ) in 2008 compared to 57 PJ in 2007 resulted in commodity sales of $441 million in 2008 which was $41 million higher than commodity sales of $400 million in 2007.

Volatility of natural gas purchase prices and an upward movement of market prices during the first half of 2008 resulted in an average cost of natural gas of $7.85 per GJ which was higher than the 2007 average purchase price of $6.56 per GJ. As a result, commodity cost of gas sold was $479 million which was $106 million over the $373 million in 2007.

SaskEnergy utilizes a natural gas price risk management program to assist in managing the volatility of natural gas purchase prices so that the Corporation can deliver stable, competitive commodity rates to its customers. With purchase prices for natural gas often based on a floating index price, the Corporation may use derivative instruments, primarily physical contracts, swaps and options, to effectively manage the future purchase price of natural gas. The use of derivative instruments is governed by the Corporate Derivatives Policy and related Local Distribution Company (LDC) Commodity Price Risk Management Policy. Between the time the derivative contract is entered into and the contract

is settled, changes in the fair value of the derivative contract are recorded in either commodity sales or commodity cost of gas sold depending on the nature of the contract. Upon settlement of the contract, the amount paid or received by SaskEnergy is recorded in commodity sales or commodity cost of gas sold.

The commodity margin, which is commodity sales less the commodity cost of gas sold, is affected by the difference between the commodity rate and the purchase price paid for the natural gas sold as well as the volume of natural gas sold. The commodity margin for 2008 was a $38 million loss contrasted to a $27 million gain in 2007. However, included in the 2008 loss on commodity sales was a $47 million unfavourable fair value adjustment resulting in a realized commodity margin of $9 million. This compared to an $18 million favourable fair value adjustment and a $9 million realized commodity margin in 2007.

In 2008, as the production of natural gas in the Province declined, SaskEnergy's distribution utility considered purchasing a portion of its required supply from Alberta. However, Bayhurst, a wholly owned subsidiary, produces natural gas which it sells to third parties as part of its natural gas marketing activities. Therefore, rather than import natural gas from Alberta, SaskEnergy's distribution utility purchased a small portion of its supply from Bayhurst's Saskatchewan production, which was needed to complete the annual supply requirements. These purchases occurred at Saskatchewan market prices under the same terms and conditions that would have been entered into with third parties. As a result, SaskEnergy's distribution utility was able to fulfill its supply requirements with Saskatchewan production and benefit its customers by avoiding the transportation costs associated with importing natural gas from Alberta. In 2007, as Bayhurst sold all of its production to third parties, the margin was reported as a natural gas marketing margin. For 2008 financial reporting purposes, the margin related to sales from Bayhurst to SaskEnergy's distribution utility was reported as a commodity margin.

Commodity Margin *(millions)*	**2007**	**2008**
Commodity sales	$ 400	$ 441
Commodity cost of gas sold	(373)	(479)
Commodity margin (loss)	27	(38)
Less: Fair value adjustments	(18)	47
Realized commodity margin	$ 9	$ 9

The $47 million unfavourable fair value adjustment for 2008 was primarily due to future purchases with an average purchase price of $7.36 per GJ compared to a market price of $6.40 per GJ at December 31, 2008.

Gas Marketing Margin

A component of the natural gas marketing activity in 2008 was the sale of natural gas from a storage facility in west-central Saskatchewan owned by Bayhurst that is in the process of being decommissioned. Although natural gas is continually being removed during the decommissioning phase, there is the capability to re-inject natural gas into the facility. This re-injection capability has enabled the Corporation to establish a program whereby it purchases natural gas during periods of relatively low prices, injects this natural gas into the facility and resells it later to earn a margin. This purchase and resale program has enabled the Corporation to increase its volume of production from the facility. The Corporation injected 8.0 PJ of natural gas into the facility during 2007 which increased the volume of natural gas sold during 2008. In 2008, 6.6 PJ of natural gas was injected into the facility and will be sold in future years.

The Corporation also optimizes its contracted transmission and storage capacity during off-peak periods by purchasing and selling natural gas in the open market to generate a margin. Additionally, through a competitive bid process, SaskEnergy supplies certain Saskatchewan large end-use customers with natural gas and provides related natural gas management services.

When conducting its natural gas marketing activities, the Corporation enters into purchase and sale transactions in the open market, which are subject to natural gas price risk given the volatility of market prices. Similar to the discussion related to the commodity margin, in order to manage natural gas price risk for its natural gas marketing activities, the Corporation may use derivative instruments, principally physical contracts and swaps. Derivative contracts are recorded at fair value until the date of settlement, with changes in fair value recorded in either natural gas marketing sales or natural gas marketing cost of gas sold depending on the type of transaction.

For the year ended December 31, 2008, the Corporation generated $576 million in natural gas marketing sales compared to $485 million in natural gas marketing sales in 2007. Natural gas marketing cost of gas sold was $539 million while 2007 was $450 million. As a result, the natural gas marketing margin in 2008 was $37 million compared to $35 million in 2007, a $2 million increase.

Gas Marketing Margin *(millions)*	**2007**	**2008**
Gas marketing sales	$ 485	$ 576
Gas marketing cost of gas sold	(450)	(539)
Gas marketing margin	35	37
Less: Fair value adjustments	(2)	(23)
Realized gas marketing margin	$ 33	$ 14

For 2008, a $23 million favourable fair value adjustment increased the natural gas marketing margin. This fair value adjustment was primarily due to physical contracts with an average selling price of $7.16 per GJ compared to a market price of $6.25 per GJ at December 31. In 2007, there was a $2 million favourable fair value adjustment that increased the natural gas marketing margin. On a realized basis, the natural gas marketing margin was $14 million for 2008 compared to $33 million for 2007. While there was an increase in the volume sold during 2008, margins were lower than the previous year.

As previously discussed, during 2008 SaskEnergy's distribution utility purchased a portion of Bayhurst's Saskatchewan natural gas production. Therefore, for 2008 financial reporting purposes, the margin from these transactions was included in the commodity margin. This compared to 2007 when all of the production was sold to third parties, and the margin was included in the natural gas marketing margin. The foregoing was the primary reason for the lower natural gas marketing margin for 2008 compared to 2007.

Delivery Revenue

In 2008, delivery revenue was $182 million which was $15 million higher than the $167 million in 2007. As the primary reason SaskEnergy customers consume natural gas is for space heating purposes, winter weather (November to March) significantly influences volumes distributed. Volumes distributed rose with 65 PJ of delivered volumes in 2008 compared to 60 PJ in 2007. Consistent with the growth in volumes, 2008 was 5 per cent colder than normal (normal determined by the 30-year average), primarily due to the coldest December in 25 years, while 2007 was consistent with normal temperatures.

In addition to winter weather, the actual volume delivered is affected by the number of customers on the distribution system and the average usage per customer. During the past two years, SaskEnergy has experienced a comparatively high level of growth in net new customer connections. These new customer connections were located throughout the Province as almost 500 communities experienced customer growth.

CUSTOMER GROWTH
(NET NEW CUSTOMERS)

Consistent with the increased emphasis on energy conservation, there has been a reduction in the average usage of natural gas on a per customer basis. This reduction is a result of improvements in building insulation, development of more energy efficient natural gas equipment and a general focus on energy conservation by customers. Although these initiatives reduce delivery revenue per customer, energy conservation is important to the future sustainability of SaskEnergy's distribution system. In fact, SaskEnergy administers specified Provincial and Federal Government energy conservation programs to help consumers use natural gas more efficiently, thereby encouraging them to choose natural gas to meet their long-term energy needs.

Effective November 1, 2008, the Provincial Cabinet, upon recommendation by the Saskatchewan Rate Review Panel, approved a delivery rate increase of 5.8 per cent, which was only the second delivery rate increase in the past 11 years. The basic monthly charge increased $2.00 per month for residential customers and $2.55 per month for farm customers with modest increases for other customer classes. Upward pressures on operating costs and declining revenue on a per customer basis led to the delivery rate increase.

Transportation and Storage Revenue

The level of natural gas drilling activity in Saskatchewan as well as the level of production from existing natural gas wells has a direct impact on Provincial natural gas production. The number of natural gas wells drilled in the Province rose from 1,138 in 2007 to 1,203 in 2008, a six per cent increase. This was the first increase in recent years as natural gas prices strengthened significantly during the summer months. However, the increase in the number of new natural gas wells drilled was not enough to offset the normal decline in production from existing natural gas wells resulting in a natural gas production decline. As the amount of capacity shippers require on the transmission system is directly influenced by the volume of natural gas production, transmission revenue declined to $77 million in 2008 compared to $82 million in 2007.

Deliveries by the transmission system to customers within Saskatchewan, or to points where the natural gas is subsequently exported, are based on the volume of receipts onto the system as well as withdrawals from storage. Despite a reduction in receipts, contracted capacity for deliveries within Saskatchewan remained relatively stable. However, the consequences of lower receipts combined with a stable level of delivery volumes resulted in less natural gas available for export in 2008, with 55 PJ in 2008 compared to 93 PJ in 2007.

In order to assist in mitigating the effects of lower transmission revenue, effective June 1, 2008 transportation rates were increased by 4.2 per cent. Coupled with the rate increase, a number of cost reduction measures were also implemented.

Underground natural gas storage facilities offer customers an essential service in managing their natural gas supply. The strong demand for storage services continued, as storage service was fully contracted for the eleventh consecutive year even with a 2.6 PJ expansion in capacity.

Revenue Collected for and Paid to Municipalities

Under provisions of *The SaskEnergy Act*, the Corporation is required to collect a percentage of natural gas sales to, or natural gas transported for, customers on behalf of certain municipalities. The Corporation then remits the full amount collected to the respective municipality. As the Corporation does not profit on these transactions, the related revenue and expenses were each $25 million compared to $24 million in 2007.

Other Revenue

Other revenue, which includes royalty revenue, natural gas and liquid sales and income from equity investments, increased $3 million in 2008.

Revenue from a gross overriding royalty on 450 natural gas producing properties in Saskatchewan and Alberta was $6 million in 2008. Higher average natural gas selling prices and volumes of natural gas produced from these properties resulted in an increase of $1 million in royalty revenue compared to 2007.

The Corporation generated $8 million of revenue through its natural gas processing operations. This was an increase of $2 million as average sales prices were higher given the rise in commodity prices for the majority of the year.

SEII holds equity investments in Gas Sur and Igasamex, which operate natural gas-related businesses in Chile and Mexico respectively. The Corporation's share of income from these equity investments was $2 million, consistent with the prior year. SEII's share of Gas Sur's 2008 net income was $1 million. Gas Sur's net income was $2 million, which was $2 million lower than 2007 given higher natural gas costs and approximately 30 per cent warmer weather in 2008. SEII's share of Igasamex's 2008 net income was $1 million. Igasamex's net income was $2 million, which was consistent with 2007. Igasamex continued to have success signing and connecting new industrial customers with 13 new customers connected in 2008 and an additional 13 new customers contracted for natural gas service.

Operating and Maintenance Expenses

Operating and maintenance expenses were $139 million for 2008 which was an increase of $7 million compared to 2007. In 2008, higher oil prices were the direct cause of an increase in vehicle fuel costs (35 per cent) while the strong Saskatchewan economy resulted in both rising labour costs (10 per cent) and higher third-party contractor costs (31 per cent).

In order to ensure the safe and reliable operation of over 80,000 kilometres of transmission and distribution systems that serve over 342,000 customers, SaskEnergy employs approximately 1,100 people, including temporary and seasonal staff. The competitive labour market in the Province resulted in increased salaries, wages and benefits as the Corporation needed to attract and retain skilled and knowledgeable staff.

Growth in customer connection activity levels also contributed to pressures on operating costs. The incremental workload related to activation of new customers was performed by staff during normal business hours. As a result, a certain amount of regular maintenance activities were completed either after normal working hours or through the use of contractors, increasing both labour and third-party contractor costs. In a similar manner, additional work was required to alter underground facilities for improvement projects undertaken by customers.

As a result of strong economic activity within the Province, there was a 15 per cent increase in the workload required to locate underground facilities as requested by customers. For safety reasons, line location services are imperative in preventing third parties from contacting underground natural gas facilities.

With rising cost pressures, SaskEnergy is continually looking for ways to become more efficient. Some initiatives that the Corporation implemented to reduce its costs include electronic billing and implementation of a mobile work management system whereby service technicians are dispatched to their work assignments via computers within their vehicles.

Interest Expense

There was a $2 million reduction in interest expense from 2007 to 2008 from a decline in interest on long-term debt partially offset by an increase in interest on short-term debt. The Corporation repaid $75 million of long-term debt with an average interest rate of 7.8 per cent during the first half of the year and then issued $120 million of long-term debt with an average interest rate of 4.9 per cent toward the end of the year. Although interest rates on short-term debt were lower in 2008, higher average short-term debt balances led to an increase in interest expense on short-term debt for 2008.

Amortization Expense

Amortization expense of $56 million was $2 million above the prior year. The effect of a higher asset base was partially offset by a decrease in amortization rates. Amortization rates were reduced as a result of a depreciation study conducted by an independent third party. See Critical Accounting Policies and Estimates (page 44) for additional information related to the depreciation study.

Saskatchewan Taxes

Saskatchewan taxes include corporate capital taxes paid to the Province on capital employed as well as property taxes paid to municipalities. Saskatchewan taxes of $8 million were incurred in 2008 which was consistent with 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million of short-term loans from the General Revenue Fund and a $35 million line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1.3 billion of debt.

On average, SaskEnergy generates approximately $99 million of cash from operations per year. Looking forward, SaskEnergy's ability to generate cash from operations, together with the $400 million of short-term debt the Corporation is authorized to borrow, provides sufficient liquidity and capital to meet its near-term funding requirements.

The volatility of natural gas prices contributes to the liquidity risk inherent in the distribution utility business. A sudden increase in natural gas costs could result in a significant net cash outflow before the rates charged to customers can be adjusted to reflect the higher cost. In the interim, SaskEnergy relies upon its credit lines to fund the difference between the cost of natural gas and the revenue earned on its commodity sales to distribution utility customers.

Due to the nature of SaskEnergy's distribution utility business, cash flows tend to be cyclical as winter weather produces the majority of commodity sales, while natural gas purchases are distributed throughout the year. In the summer, purchases in excess of sales are injected into storage, while in the winter, sales volumes in excess of purchase volumes are withdrawn from storage. Consequently, cash receipts tend to exceed cash expenditures from December to May, while cash expenditures tend to exceed cash receipts from June to November. SaskEnergy relies on temporary loans from the General Revenue Fund to finance natural gas injections into storage during the summer. These loans are then repaid between December and May as customers pay for natural gas consumed for heating purposes during the winter months.

Recent events in capital markets — the disruption of the asset-backed commercial paper market in 2007 and the economic crisis in the latter part of 2008 — have highlighted the importance of effectively managing liquidity and capital resources. During 2008, the financial condition of several major financial institutions, burdened by non-performing loans and sub-prime mortgages, weakened with several declaring bankruptcy or requiring injections of capital by governments. Financial institutions effectively made capital more expensive and difficult to acquire in order to build up capital reserves. Canada's financial institutions have faired much better than other international banks, and the Bank of Canada has taken measures to stabilize the financial system.

The loss of liquidity and rising credit spreads during the period had relatively little effect on SaskEnergy. The Corporation was able to obtain short-term loans from the Province of Saskatchewan as required and its uncommitted line of credit with the Toronto-Dominion Bank remained unchanged. SaskEnergy's access to long-term capital was strengthened by its ability to borrow debt through the Province of Saskatchewan. In November, SaskEnergy was able to obtain $120 million of long-term debt from the General Revenue Fund. The Province also continued to have good access to short-term money markets. While the interest rate SaskEnergy paid for new debt had a much higher spread over Government of Canada benchmark bonds, the absolute rate SaskEnergy secured in the fourth quarter of 2008 was lower than other issues in recent years. SaskEnergy's debt to equity ratio of 66 per cent debt, 34 per cent equity at the end of 2008 is comparable to industry standards and provides SaskEnergy with the financial flexibility needed to protect the integrity of its Owner's investment.

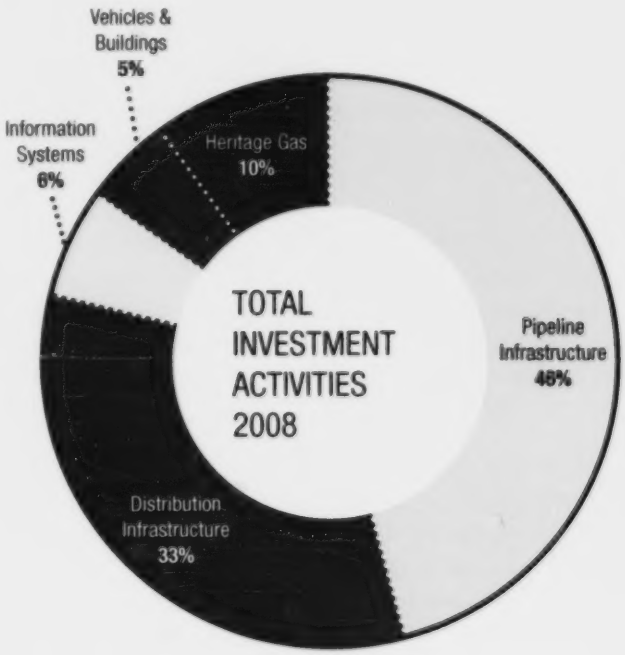
Operating Activities

In 2008, cash from operating activities was less than 2007. Income net of non-cash items (i.e. amortization and fair value adjustments) was $106 million which was comparable, but slightly lower, than income net of non-cash items in the previous year. However, cash from operations was substantially lower than the previous year as SaskEnergy had purchased additional volumes of natural gas, which were in storage at year end. This additional natural gas in storage was purchased for natural gas marketing activities and will be held for resale in 2009 and subsequent years when it is expected to generate additional profit and cash flow for the Corporation.

Cash provided by operating activities *(millions)*	**2007**	**2008**
Income net of non-cash items	$ 121	$ 106
Net change in non-cash working capital related to operations	(19)	(85)
Cash provided by operations	$ 102	$ 21

Investing Activities

During 2008, cash used for investing activities was $92 million compared to $85 million in 2007. Investments were made as follows:



SaskEnergy is planning future capital expenditures of approximately $150 million in 2009. Most of this additional capital will be spent for the purpose of maintaining, improving and expanding the natural gas transmission and distribution systems within the Province. Approximately $33 million of the total amount has been designated for new business development projects which, with the exception of $6 million, is expected to be invested within the Province of Saskatchewan.

Financing Activities

During 2008, SaskEnergy received $73 million from financing activities. SaskEnergy raised $120 million from the issuance of long-term debt to the General Revenue Fund and increased its promissory notes to the Province of Saskatchewan by $75 million. The proceeds from these loans were applied to long-term debt repayments, net of debt retirement funds, of $78 million. SaskEnergy also paid dividends of $44 million to its Owner, CIC.

Cash (used in) provided by financing activities *(millions)*	**2007**	**2008**
Proceeds from long-term debt	$ 75	$ 120
Repayments of long-term debt (including debt retirement funds)	(49)	(78)
Dividends paid	(58)	(44)
Increase in bank indebtedness and short-term debt	17	75
Cash (used in) provided by financing activities	$ (15)	$ 73

As SaskEnergy pursues its business development strategy over the next three years, it will need to issue sufficient debt to repay approximately $119 million of maturing long-term debt in addition to the incremental capital required to pursue its business development opportunities. SaskEnergy currently has the necessary access to capital resources to accommodate its future funding requirements.

Summary

SaskEnergy's access to capital through the Province of Saskatchewan and the continued profitability of core business operations provide the capital resources and liquidity necessary for continued operation, expansion of its infrastructure and development of new business opportunities.

SASKENERGY'S STRATEGIC PLAN AND KEY SUCCESS MEASURES

SaskEnergy's Strategic Plan, that was the basis for the 2008 business plan, consists of four mandates that are linked, and together are aligned with the vision of the Corporation. These strategic mandates also help employees connect their daily activities to the Strategic Plan and understand how their work impacts the company's direction. This connection is fundamental to the 2008 corporate results achieved and SaskEnergy's forward efforts in 2009 and beyond.

VISION – WE CREATE SUPERIOR VALUE THROUGH INNOVATIVE ENERGY SOLUTIONS

SaskEnergy's four strategic mandates play a crucial role in the Corporation's business planning, and an equally important role in its business reporting. Each year, SaskEnergy comprehensively sets, measures and reports targets for all aspects of its business according to the highest benchmarks — those it sets for itself to create superior value through innovative energy solutions.

The four strategic mandates are discussed in the sequence of "Our Future", "Our Growth", "Our Service" and "Our People" based on the concept that SaskEnergy must stay focused on its future in order to achieve a healthy and sustainable Corporation. A successful future comes from SaskEnergy utilizing its core expertise for economic growth in the Province and by developing new business opportunities with partners in Saskatchewan. This growth within the Corporation is built upon the strong customer service that SaskEnergy prides itself in delivering everyday. And this service is attributed to its people, the many dedicated men and women of the Corporation, who collectively contribute to the company's overall success.

The 2008 SaskEnergy annual report reflects the Corporation's efforts to demonstrate best practices in corporate and financial reporting. SaskEnergy benchmarks all activity against best-practice industry standards through a reporting scorecard aligned with the Strategic Plan. Part of the 2008 MD&A is based on the key success measures found within the scorecard.

This scorecard reflects SaskEnergy's four strategic mandates through 39 key success measures used to monitor and manage organizational performance. The targets for these key success measures were established in the 2008 business plan. The scorecard provides a comprehensive picture of the Corporation's 2008 financial results and key operational details about SaskEnergy and its subsidiaries. The future year scorecard targets within the key success measures were reviewed in 2008 relative to the development of the 2009 business plan. A number of the future targets will be modified to reflect the evolving operating and business environment which will be reflected in the 2009 SaskEnergy annual report.

OUR FUTURE

Strategic Measure	2007 Actual	2008 Actual	2008 Target	2009 Target	2010 Target	2011 Target
Competitive Rates						
• SaskEnergy Commodity	$838 – 3rd Lowest in Canada	$864 – Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
• SaskEnergy Delivery	$367 – 2nd Lowest in Canada	$381 – Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
• TransGas Export Rates	Lower than average TCPL (Nova) TransGas 25.3¢/GJ Nova 27.5¢/GJ	Lower than average TCPL (Nova) TransGas 26.3¢/GJ Nova 29.2¢/GJ	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)
Community Investment						
• Investment *(millions)*	$1.73	$1.80	$1.60	$1.60	$1.60	$1.60
• Projects Supported	1,288	1,321	1,300	1,300	1,300	1,300
• Communities Impacted	317	328	270	270	270	270
• Percentage of Goods and Services Sourced in Saskatchewan	69%	81%	70%	72%	74%	74%
• Total Contracts – Percentage of Aboriginal Labour Content	10%	22%	10%	11%	12%	13%
Environmental						
• Investment in Environmental Impact Programs *(thousands)*	$910	$1,062	$840	$840	$840	$840
• Number of Programs Undertaken	6	6	6	6	6	6
• Reduction in Energy Consumption	55 TJ/year	25 TJ/year	20 TJ/year	20 TJ/year	20 TJ/year	20 TJ/year
• Fund and Administer Customer Energy Efficiency Assistance Programs *(millions)*	$1.55	$1.82	$1.60	$1.60	$1.60	$1.60
• Number of Customers Impacted	7,841	10,414	8,000	8,000	8,000	8,000
Governance	Comply with CSA Governance Guidelines*	Substantially Compliant with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*	Comply with CSA Governance Guidelines*
Financial Health						
• Debt/Equity Ratio	63/37	66/34	63/37	65/35	65/35	65/35
• Rate of Return on Equity	15.4%	12.5%	14.8%	14.6%	13.3%	13.1%
• Net Income *(millions)*	$66	$55	$64	$65	$60	$61
• Capital Investment *(millions)*	$100	$98	$103	$87	$66	$80

* Canadian Securities Administrators (CSA) Corporate Governance Guidelines "National Policy 58-201" and guidelines for disclosure of Corporate Governance Practices "National Instruments 58-101."

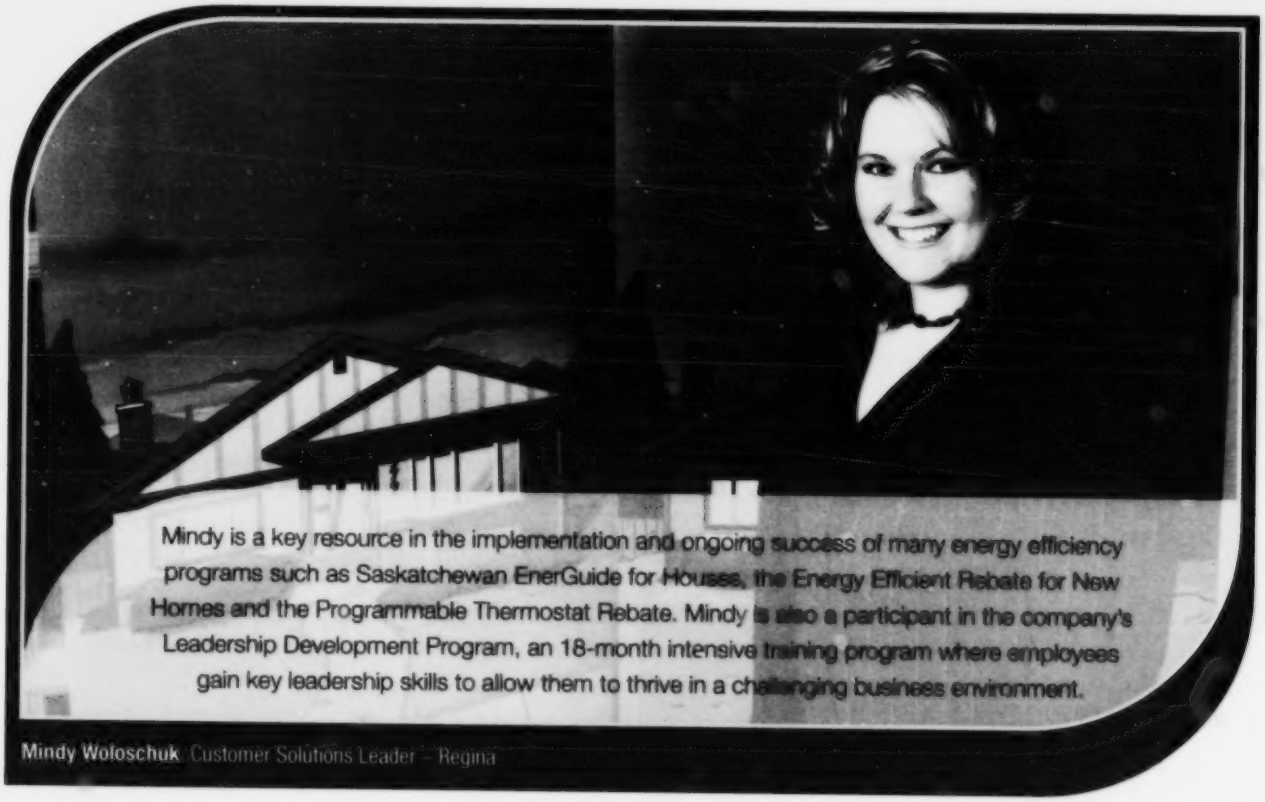
Competitive Rates – SaskEnergy and TransGas strive to maintain low and stable commodity, delivery and transportation rates in order to offer affordable and accessible natural gas services to all customers in Saskatchewan. Competitive rates allow SaskEnergy to effectively support economic growth in the Province through an energy advantage of doing business in the Province.

In 2008, SaskEnergy achieved the lowest residential natural gas commodity rates when compared to other major utilities in Canada, with an average cost to a typical residential customer of $864 per year. SaskEnergy was also successful in achieving the lowest delivery rates when compared to other major utilities in Canada, with a cost of $381 per year for a typical residential customer. On November 1, 2008 SaskEnergy increased the Basic Monthly Charge to residential customers from $12.50 per month to $14.50 per month.

SaskEnergy's rates are approved by the Provincial Cabinet, which receives recommendations on proposed rate changes from the Saskatchewan Rate Review Panel, an independent body which reviews all rate changes proposed by the Corporation.

TransGas also reached its target of having rates lower than average TCPL (Nova) export rates with a rate of 26.3¢ per GJ. TransGas rates were approximately three cents less per GJ (or 9.9 per cent less) than those of TCPL (Nova) in Alberta in 2008.

In 2009, SaskEnergy will review its commodity and delivery rates in both the spring and the fall and apply for any necessary adjustment that may result from changing natural gas prices and the management of effectively operating the natural gas distribution system.



Mindy is a key resource in the implementation and ongoing success of many energy efficiency programs such as Saskatchewan EnerGuide for Houses, the Energy Efficient Rebate for New Homes and the Programmable Thermostat Rebate. Mindy is also a participant in the company's Leadership Development Program, an 18-month intensive training program where employees gain key leadership skills to allow them to thrive in a challenging business environment.

Mindy Woloschuk Customer Solutions Leader – Regina

Community Investment — SaskEnergy's community investment activities are strategic initiatives designed to build and maintain strong relationships with the communities that the Corporation serves. Corporate Social Responsibility has become a guiding philosophy behind SaskEnergy's approach to doing business. Therefore, by supporting local, provincial and national groups, SaskEnergy is ensuring that it is increasing the sustainability of its operations.

In 2008, SaskEnergy achieved its investment target with $1.80 million going to support local and provincial groups and organizations. These sponsorships have extensive provincial reach, supporting 1,321 projects in 328 communities. SaskEnergy supports events and activities across the Province in the following five priority categories: Education and Leadership; Community Initiatives; Saskatchewan Pride; Environmental Stewardship; and Saskatchewan Growth.

A component of SaskEnergy's community investment involves purchasing goods and services sourced in Saskatchewan in order to support the provincial economy through local businesses. In 2008, SaskEnergy surpassed its target with 81 per cent of the goods and services required by SaskEnergy being purchased within Saskatchewan. SaskEnergy also supports the Aboriginal population by awarding a percentage of contracts to the Aboriginal labour market. In 2008, SaskEnergy exceeded its target with 22 per cent of its contracts being awarded to Aboriginal contractors.

In 2009, SaskEnergy plans to contribute $1.60 million to support 1,300 events in 270 communities across Saskatchewan. The Corporation will develop sustainable working relationships with First Nations and Métis communities, with a focus on their integration with SaskEnergy's business.

Environmental — SaskEnergy is committed to environmental leadership. Therefore, this measure is designed to monitor the Corporation's ability to minimize its environmental footprint while assisting customers to lower their consumption with energy efficiency programs.

In 2008, SaskEnergy exceeded its target investment in environmental initiatives with $1,062 thousand being spent on six environmental impact programs. These programs consisted of initiatives related to reclamation, hazardous material storage, site remediation, pollution prevention, air quality and GHG initiatives and leading edge research.

SaskEnergy also surpassed its target in the area of reduction in energy consumption in 2008. The energy efficiency and GHG emission reduction improvements during the year amounted to 25 Terajoules (TJ). These energy savings resulted from facility enhancements at the Bayhurst storage field; controls upgrades to two compressor engines at Coleville; improved compressor station optimization at key locations across the transmission system to reduce fuel gas usage; and line heater efficiency improvements.

In 2008, the Corporation surpassed its energy efficiency program investment target by investing over $1.82 million to assist 10,414 customers through various energy efficiency programs. SaskEnergy also worked closely with the Provincial and Federal Governments on energy solutions for customers and had successful participation on the Energy Efficient Rebate for New Homes which is funded by the Ministry of Environment's Go Green Fund and the Saskatchewan EnerGuide for Houses Program which builds on the Federal ecoENERGY Retrofit Homes program. In 2008, Saskatchewan became the leader in national participation in this program with 6.9 per cent of homeowners having had an initial evaluation (pre-retrofit) completed. The average participation rate for Canada is 2.3 per cent.

In 2009, the Corporation will develop and implement a GHG and Clean Air Program that will contribute to meeting future regulatory targets. In addition to this program, the Corporation will implement environmentally sustainable strategies to reduce energy use among the vehicle fleet, buildings and other internal uses of energy.

With her extensive legal background, Charlene plays a key role in managing the Corporation's Governance and Privacy policies and practices. Her practical application of legal knowledge and excellent project management skills have made her an instrumental member of the legal team at SaskEnergy.

Charlene Greve, Assistant General Counsel and Corporate Secretary – Regina

Governance — SaskEnergy benchmarks its governance practices against the Canadian Securities Administrators (CSA) Corporate Governance guidelines. By doing so, the Corporation ensures that its customers and employees are given fair and equitable treatment and that the proper levels of authority and responsibility are established so that all employees can accomplish their work without unnecessary restrictions or risks. Full details of corporate governance results are available beginning on page 79.

In 2009, the Corporation will actively participate in the Public Enterprise Governance Centre in order to monitor and adopt best practices in Canadian Crown corporations.

Financial Health – The financial health measures ensure the Corporation maintains an appropriate capital structure while providing reasonable financial returns to the Owner.

In 2008, capital expenditures of $98 million were $5 million below the target of $103 million due to the deferral of certain business development projects to 2009. Although the Corporation's capital expenditures were slightly lower than anticipated, additional short-term debt was required for the purchase of natural gas which was injected into storage and remained there at year end. Consequently, the debt to equity ratio of 66 per cent debt and 34 per cent equity was slightly above the target.

In 2008, consolidated net income, before the effects of fair value adjustments, was $55 million which was $9 million below the $64 million target. This variance was primarily due to lower than anticipated transportation revenues as contract volumes did not reach budget levels thereby reducing receipt and export revenues. Further, lower than expected results from natural gas marketing activities were partially offset by a margin on commodity sales that was due to the transactions discussed in the Consolidated Financial Results (page 20). With consolidated net income lower than anticipated, the rate of return on equity was 12.5 per cent compared to a target of 14.8 per cent.

SaskEnergy anticipates strong financial results in the upcoming year. With the Corporation's sound financial position and strategic direction, SaskEnergy expects growth in both new and existing operations within the Province and projects an average annual net income of $65 million over the next five years.

OUR GROWTH

Strategic Measure	2007 Actual	2008 Actual	2008 Target	2009 Target	2010 Target	2011 Target
Incremental Net Income from Business Development *(millions)*						
• New Business Development	$0.4	$1.3	$3.5	$7.8	$9.2	$12.6
• External Investments	$4.0	$4.4	$5.5	$7.2	$8.1	$8.6
Number of Business Opportunities Considered	27	29	10	10	10	10
Number of Opportunities Under Development	6	4	4	4	4	4
Direct Jobs Created*	2	6	20	16	68	64

* Includes permanent jobs plus jobs created during construction and development phase.

Incremental Net Income from Business Development — This measure allows SaskEnergy to gauge the success of its new business development initiatives as well as its external investments in terms of the net income earned each year.

In 2008, SaskEnergy was below its target of $3.5 million of net income from its new business development initiatives as the Kisbey Natural Gas Processing Plant expansion, which was planned to be in-service at the beginning of 2008, was deferred to November 1, 2009. This deferral was due to increasing material and labour costs in the marketplace which resulted in the Kisbey Joint Venture having to reconsider the scale and timing of the investment. In addition, the new business development growth target included income from expanded storage operations. This expansion strategy was adjusted to potentially capture synergies of a joint venture.

In 2008, existing investments owned by SNSHL and SEII resulted in combined incremental net income of $4.4 million which is below the target of $5.5 million. Revenue from SNSHL was lower than budget due to lower than expected consumption by activated customers and delays in connecting key large customers to the distribution system. SEII's revenue was slightly lower than projected as one of its external investments, Gas Sur, experienced higher natural gas costs and less demand for natural gas due to warmer than normal temperatures in Chile.

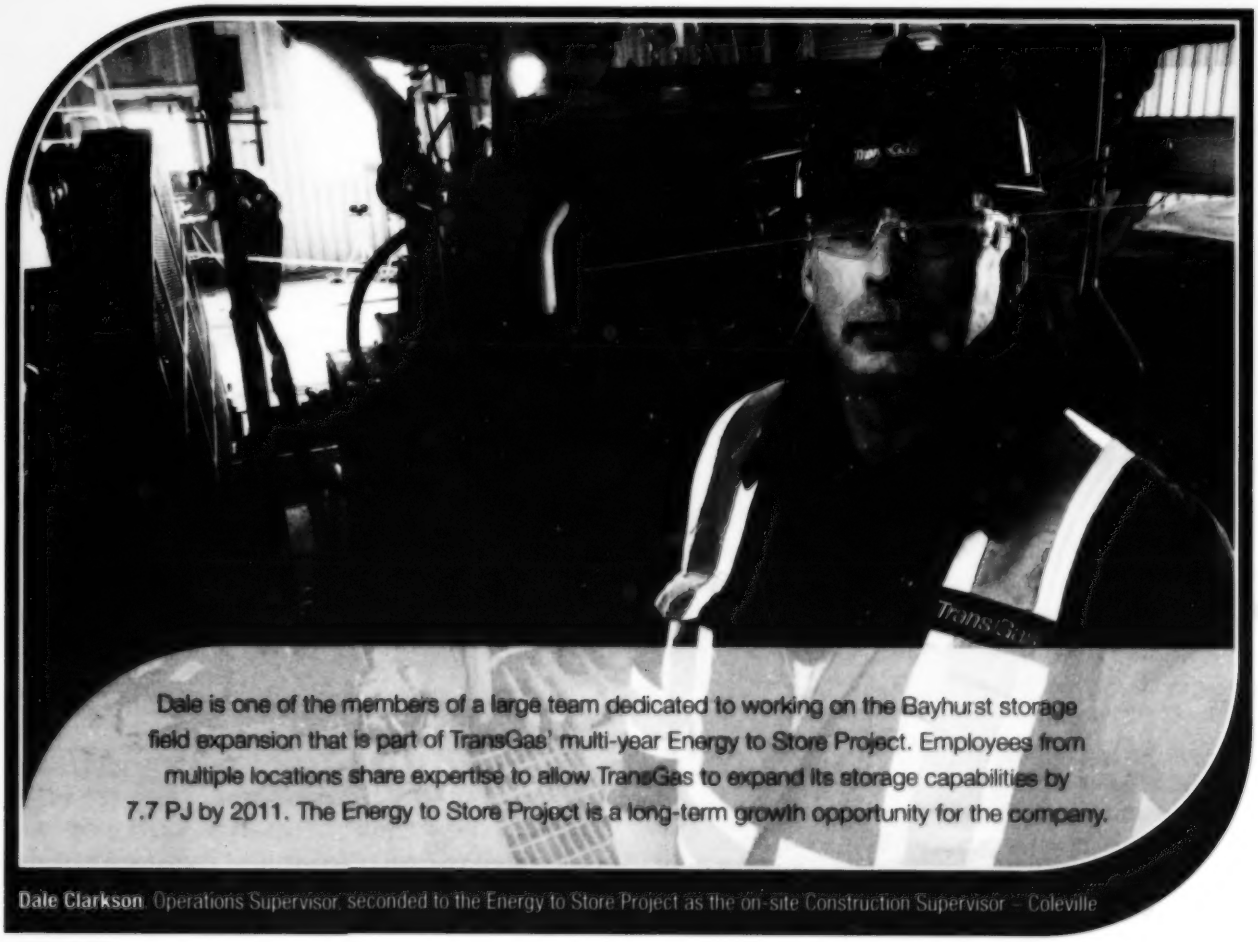
Number of Business Opportunities Considered — The purpose of this measure is to ensure that SaskEnergy is exploring numerous business opportunities in order to determine which projects are most appropriate for the Corporation and to stay current on industry trends and ventures.

In 2008, SaskEnergy considered 29 business opportunities in areas such as enhanced natural gas and oil recovery, CO_2 transportation networks, CO_2 injection, oil gathering systems, heat recovery power production, as well as projects such as natural gas processing plants within the Province.

Number of Opportunities Under Development – This measure monitors the number of business development opportunities that are currently underway.

In 2008, SaskEnergy met its target with four initiatives currently being developed. These projects include:

- the Kisbey Natural Gas Processing Plant expansion to provide additional capacity to capture, gather and process natural gas that is currently being flared;
- the Aquistore Project which is a research partnership with the PTRC to determine the viability of utilizing deep saline aquifers for the long-term sequestration of CO_2;
- the Landfill Project in which SaskEnergy is working in cooperation with Solar Hydrogen Energy Corporation (SHEC) and SDTC to convert landfill gas to hydrogen using solar energy on a commercial scale; and,
- the Saskatchewan Research Council Biomass Research contract to quantify biomass-related natural gas opportunities.



Dale is one of the members of a large team dedicated to working on the Bayhurst storage field expansion that is part of TransGas' multi-year Energy to Store Project. Employees from multiple locations share expertise to allow TransGas to expand its storage capabilities by 7.7 PJ by 2011. The Energy to Store Project is a long-term growth opportunity for the company.

Dale Clarkson, Operations Supervisor, seconded to the Energy to Store Project as the on-site Construction Supervisor – Coleville

Direct Jobs Created – This measure monitors the number of new positions created at SaskEnergy that are a result of business development projects and initiatives.

A total of six jobs were created by the end of 2008 as a result of business development initiatives. This number was below target as the Kisbey Natural Gas Processing Plant expansion was deferred, hence reducing the availability of capital to allow for job creation.

In 2009, business development plans to expand mid-stream natural gas opportunities associated with the capture of flare gas. Additional focus areas will include the transportation of CO_2 and other business opportunities that are closely aligned with Provincial interests such as projects involving environmentally sustainable development and use of natural gas, biomass and landfill natural gas.

Tania brings together her skills from cost of service analysis, accounting and process analysis to help set the groundwork for the Kisbey Natural Gas Processing Plant operation. She conducts the regular review of operations to generate performance measurement and feedback on production levels, operating costs, commodity sales and gross margins.

Tania Penny, Analyst, Business Development – Regina

OUR SERVICE

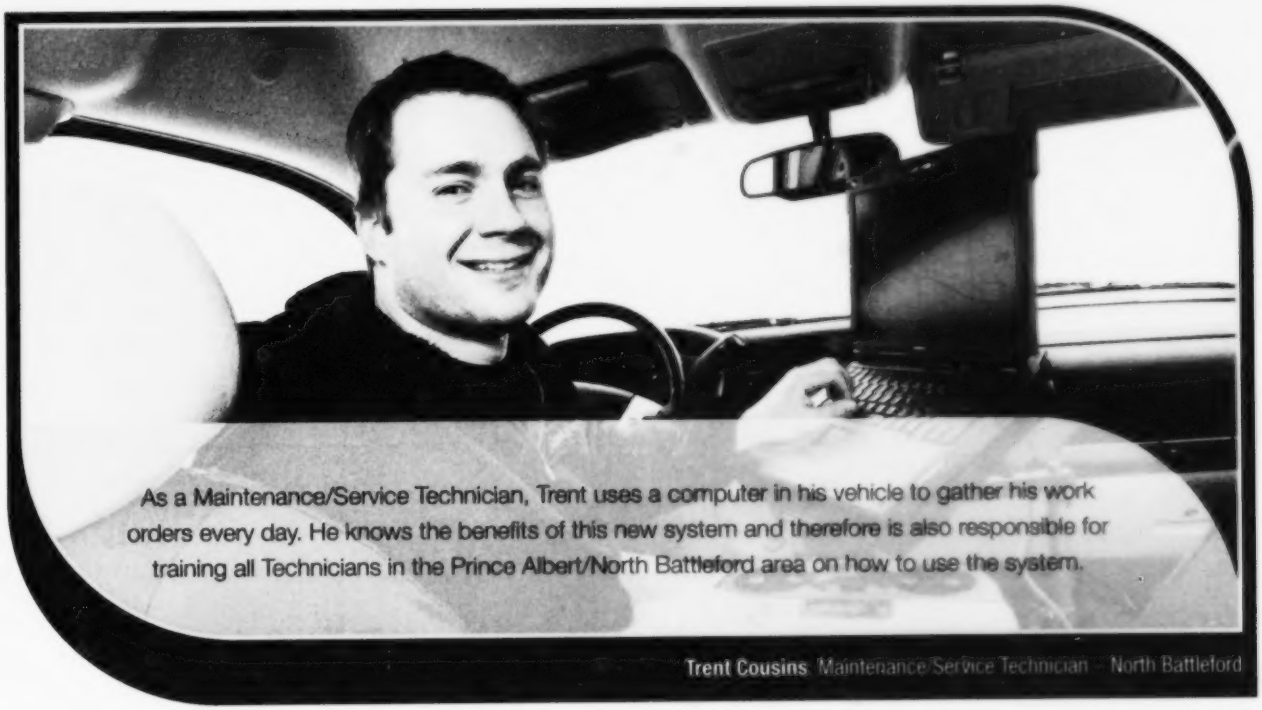
Strategic Measure	2007 Actual	2008 Actual	2008 Target	2009 Target	2010 Target	2011 Target
Reliability Index						
• SaskEnergy	8.1	7.5	9.0	9.0	9.0	9.0
• TransGas	9.5	8.9	9.2	9.2	9.2	9.2
Customer Satisfaction						
• SaskEnergy	95%	87%	85%	85%	85%	85%
• TransGas	95%	95%	85%	85%	85%	85%
Respond Within One Hour to Safety Incidents						
• SaskEnergy	90%	88%	98%	98%	98%	98%
• TransGas	100%	100%	98%	98%	98%	98%

Reliability Index — This measure provides a rating of SaskEnergy's and TransGas' systems' ability to provide service to its customers without interruption. The Reliability Index takes many industry lead and lag indicators into account, such as outages, training, customer awareness programs and planned maintenance progress, and applies a weighted score to arrive at a measure to gauge the effectiveness of the Corporation's efforts. The scale is in a range of zero to 10, with 10 being the highest achievable score.

SaskEnergy: In 2008, SaskEnergy achieved a Reliability Index score of 7.5, which is 1.5 points below the target. While the lead indicators, such as planned maintenance, training and job observations, maintained a high average throughout 2008, the high workload of new customer connections as well reduced availability of third-party training sessions had an effect on the lag indicators, affecting the Corporation's ability to achieve the year end forecast of 9.0. One significant event that contributed to the Reliability Index score being lower than target was the unplanned outage at Nipawin that resulted from a third-party pipeline contact. Many customers lost service at this time, however SaskEnergy responded quickly and, once public safety was verified, had service restored in less than 24 hours. An outage such as this is extremely rare, and although the Reliability Index target was not met, the distribution system remains safe and reliable.

TransGas: TransGas was slightly below its Reliability Index target in 2008 with a score of 8.9. This score is largely attributed to the unplanned downtime of primary compressor units which affected the lead indicator of reliability of designated units. Although TransGas experienced a higher than average number of unit breakdowns in this last quarter of 2008, it maintained 100 per cent service to customers.

SaskEnergy and TransGas have extensive facility integrity programs that are based on industry standards and best practices. In 2008, SaskEnergy and TransGas spent $16.5 million on ongoing integrity and maintenance initiatives including such activities as leak surveys, which were conducted on the entire 14,074-kilometre transmission pipeline system and 20 per cent of the distribution system including 12,200 kilometres of pipe and 69,300 services. Multiple types of leak surveys are performed annually including aerial, all-terrain vehicles and personnel on foot carrying portable laser leak detection equipment. The Corporation also performed In-Line Inspections (ILI) on approximately 360 kilometres of transmission pipelines using specialized tools that



As a Maintenance/Service Technician, Trent uses a computer in his vehicle to gather his work orders every day. He knows the benefits of this new system and therefore is also responsible for training all Technicians in the Prince Albert/North Battleford area on how to use the system.

Trent Cousins, Maintenance/Service Technician – North Battleford

travel inside the pipelines to gather information about the condition of the pipe which is analyzed to determine what action, if any, is required.

In 2009, the Corporation will focus on expanding the delivery of remote technology operations at customer and company facilities, as well as utilizing provincial video conferencing infrastructure to improve productivity. These efforts will assist staff to contribute to the operations of the Corporation's facilities.

Customer Satisfaction — Ensuring that customers are satisfied is a very high priority for SaskEnergy. The Corporation strives to create a culture whereby employees seek solutions for customers and in turn, increase customer satisfaction.

SaskEnergy: In 2008, SaskEnergy surpassed its target with 87 per cent of residential customers rating their satisfaction with the Corporation providing strong customer service a 5, 6 or 7 out of a total of 7, (a score of 7 represents an excellent score) in a residential survey conducted by an independent Saskatchewan market research firm. In addition, SaskEnergy participated in an independent national survey on customer satisfaction of Canadian natural gas/electrical companies conducted by Ipsos-Reid and finished second overall out of the 10 companies surveyed.

TransGas: Through the Customer Satisfaction Survey conducted during November 2008, TransGas received a composite score of 4.73 out of a possible 5.00 rating. This score represents a 95 per cent level of customer satisfaction which is above the target of 85 per cent. Many aspects of customer service were evaluated such as staff, applications, reliability and customer service excellence. TransGas continues to earn strong satisfaction ratings with most individual categories achieving a score of over 85 per cent.

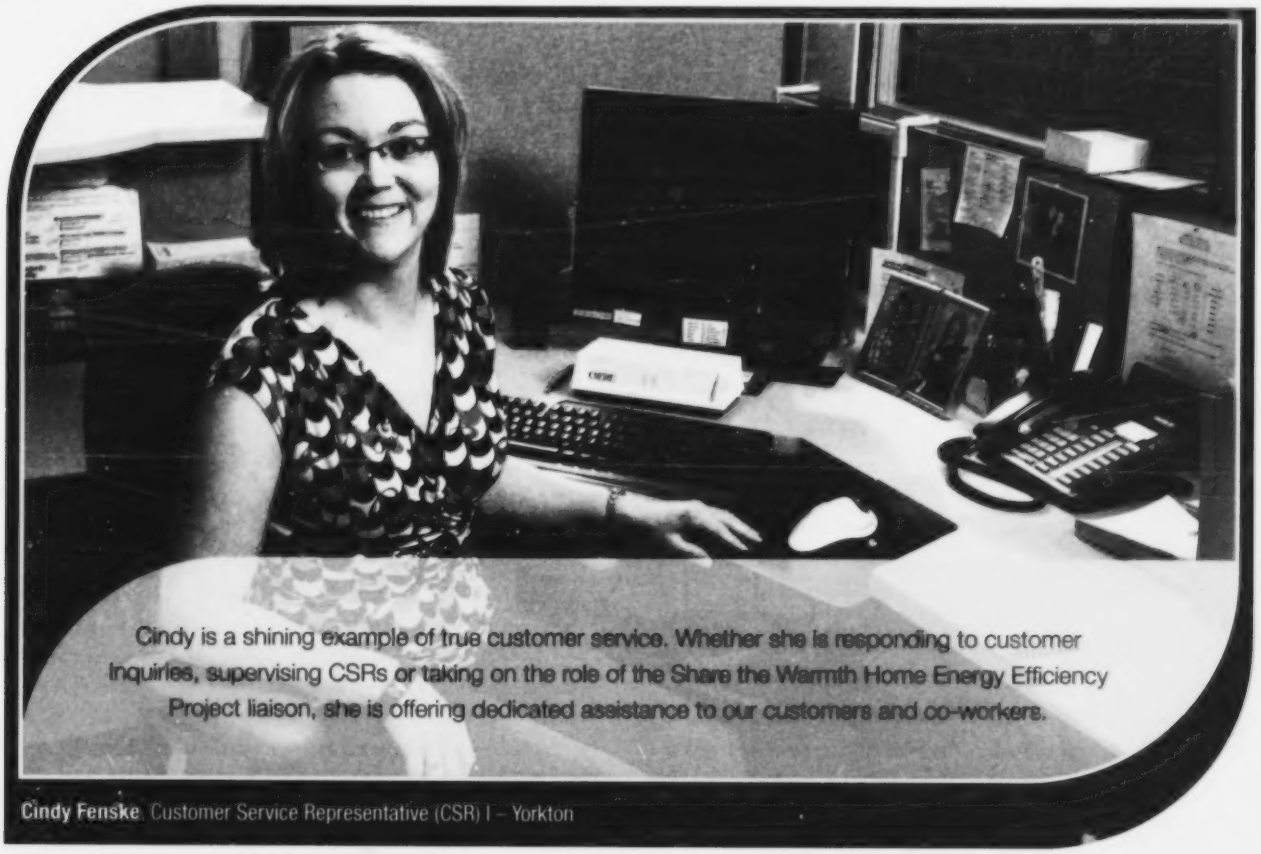
In 2009, SaskEnergy will complete a review of its customer service processes that support customer service delivery in the future, including incorporating a plan for a new Customer Information System.

Respond Within One Hour to Safety Incidents – This measure reflects the importance that SaskEnergy and TransGas place on ensuring public safety by tracking the frequency at which they respond to safety incidents within one hour.

SaskEnergy: In 2008, SaskEnergy responded to 88 per cent (507 out of 577) of emergency customer calls within one hour, with an average response time of 0.56 hours. This result is below the stretch target of 98 per cent, as a number of the emergency calls were in rural areas of Saskatchewan that are more than one hour away from a Technician's headquarters. However, it is important to note that in situations where customer response exceeds one hour, situations are evaluated and, if necessary, contingent actions are taken to ensure customer safety is not compromised.

TransGas: TransGas exceeded its target of 98 per cent with a 100 per cent rating in 2008. There were a total of three safety incidents requiring TransGas' response, all of which were responded to within one hour.

In 2009, SaskEnergy plans to increase the percentage of time emergency calls are responded to within one hour as the new mobile work management system has now been implemented. This system allows for better management of Technician resources based on proximity to the emergency which will allow for shorter response times to customer calls.



Cindy is a shining example of true customer service. Whether she is responding to customer inquiries, supervising CSRs or taking on the role of the Share the Warmth Home Energy Efficiency Project liaison, she is offering dedicated assistance to our customers and co-workers.

Cindy Fenske, Customer Service Representative (CSR) I – Yorkton

OUR PEOPLE

Strategic Measure	2007 Actual	2008 Actual	2008 Target	2009 Target	2010 Target	2011 Target
Physical Safety						
• Lost Time Frequency Rate	Third Quartile*	Fourth Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
• Preventable Collision Frequency Rate	Top Quartile*	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
• Medical Aid Frequency Rate	Second Quartile*	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Employee Satisfaction	Hay Group survey results 73%	Survey not completed in 2008	Satisfaction Index 55%	Satisfaction Index 60%	Satisfaction Index 60%	Satisfaction Index 60%
Compensation and Benefits						
• Corporate Competitiveness	Use of this measure was discontinued in 2008**					
Representative Workforce Composition of the Workforce						
• Aboriginal	13.6%	13.7%	12.0%	13.0%	14.0%	15.0%
• Women	38.8%	39.3%	41.0%	41.5%	42.0%	42.5%
• Youth	15.6%	17.3%	14.0%	15.0%	16.0%	17.0%
• People with Disabilities	2.8%	3.6%	6.0%	6.5%	6.5%	6.5%
• Visible Minorities	2.7%	3.4%	3.0%	3.5%	4.0%	4.5%
• Diversity Hires***	42.7%	31.5%	35.0%	35.0%	35.0%	35.0%

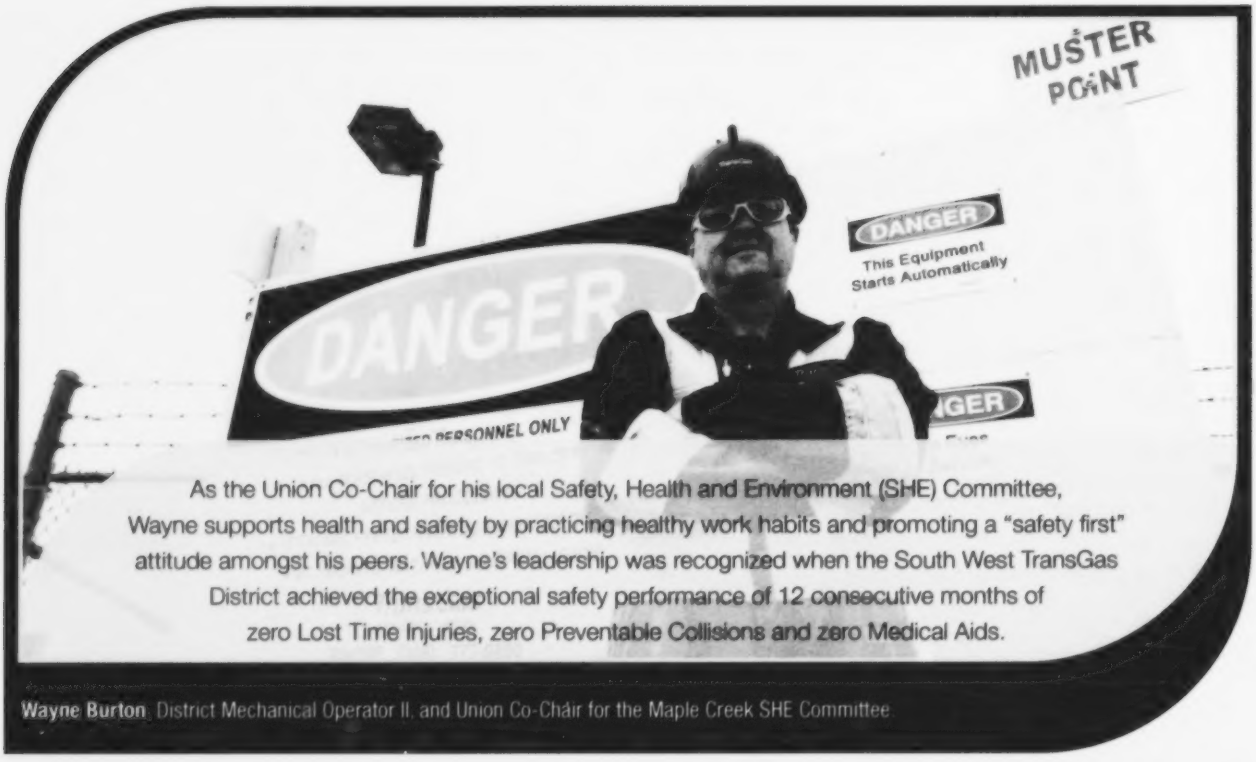
* Quartile refers to ranking relative to other Canadian Gas Association and Canadian Energy Pipeline Association companies.
** Measure discontinued in 2008 due to lack of satisfactory method of measuring this target.
*** Diversity Hires include Aboriginals, women, people with disabilities and visible minorities.

Physical Safety — SaskEnergy's highest priority is the safety of its employees. This fact is reflected in the Corporation's commitment to achieving high standards in its safety performance by ranking at least second quartile in terms of the Lost Time Frequency Rate, Preventable Collision Frequency Rate and Medical Aid Frequency Rate.

In 2008, SaskEnergy met its second quartile target in terms of the Preventable Collision Frequency Rate and the Medical Aid Frequency Rate. However, the Corporation was short of its second quartile target for the Lost Time Frequency Rate. In 2008, SaskEnergy experienced higher than normal incidents requiring lost time. The Corporation takes the higher than normal level of lost time incidents seriously and investigates each incident to determine the root cause. Although the results are below target in this measure, it is important to note that the majority of the incidents resulting in lost time were minor in nature.

In 2009, the Corporation will emphasize personal and supervisor accountability, including hazard awareness, self-discipline, compliance and a safe, productive work ethic.

Employee Satisfaction — An engaged workforce is the key to a productive and successful corporation. That is why SaskEnergy gauges its employees' level of engagement through the Hay Group Survey, which evaluates engagement based on the following five areas: overall recognition, decision making/independence, opportunity for personal growth, competitiveness of compensation and benefits and work/life balance.



As the Union Co-Chair for his local Safety, Health and Environment (SHE) Committee, Wayne supports health and safety by practicing healthy work habits and promoting a "safety first" attitude amongst his peers. Wayne's leadership was recognized when the South West TransGas District achieved the exceptional safety performance of 12 consecutive months of zero Lost Time Injuries, zero Preventable Collisions and zero Medical Aids.

Wayne Burton, District Mechanical Operator II, and Union Co-Chair for the Maple Creek SHE Committee

SaskEnergy did not complete the Hay Survey in 2008, as the results of the 2007 Hay Survey were not made available until early 2008. This survey will be conducted bi-annually, with every interim year being used to develop action plans to address issues that the survey identified with the goal of being an employer of choice.

In 2009, SaskEnergy will conduct a survey by the Hay Group and carefully review the results to drive improved accountability and performance throughout the Corporation.

Compensation and Benefits – In 2008, the Corporation initiated a Job Evaluation project to evaluate its compensation system and processes. The project efforts included assessing all employee job descriptions from an effectiveness and future needs perspective. The evaluation also conducted an external market assessment with SaskEnergy using market data from the Prairie median 50th percentile for job comparisons.

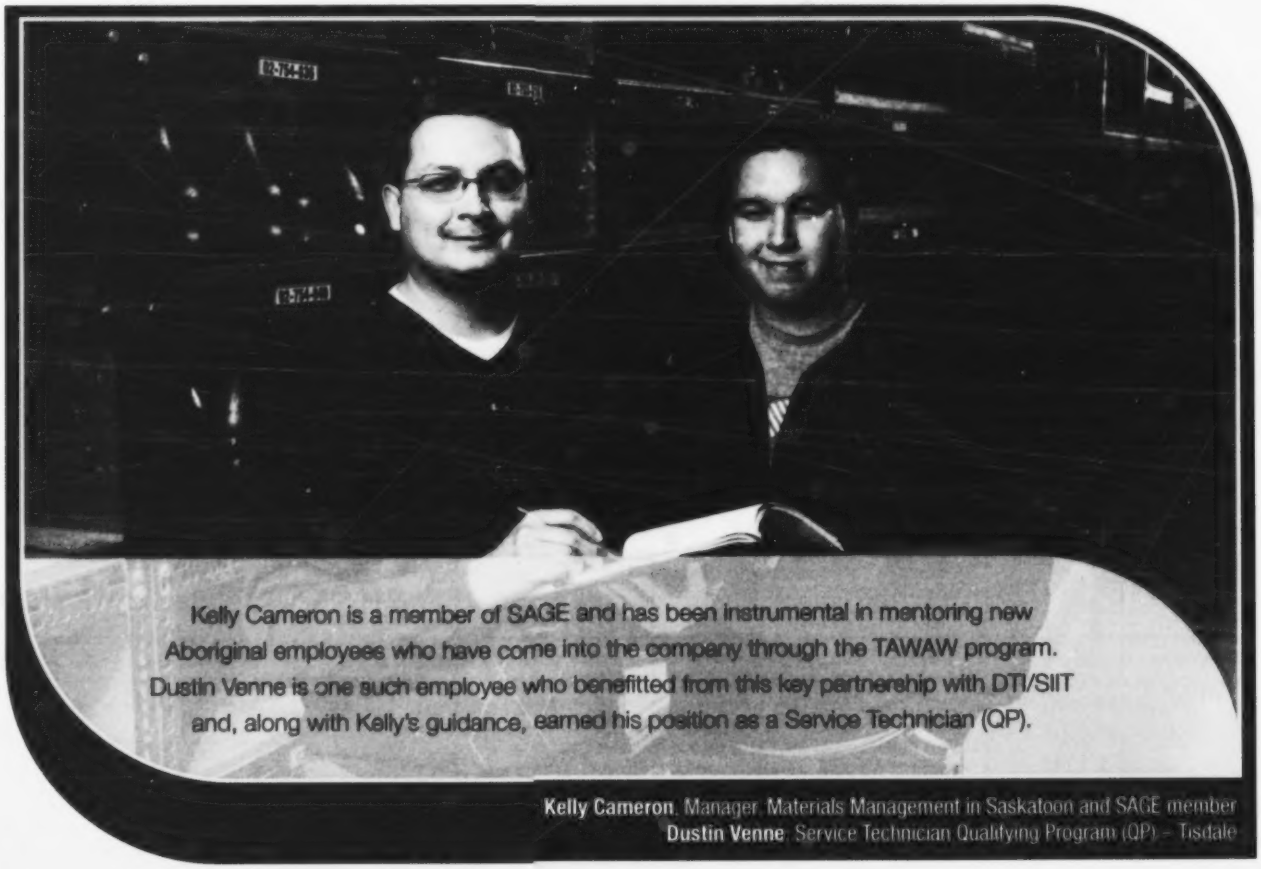
In 2009, the Corporation will complete and implement the results of the Job Evaluation project.

Representative Workforce – SaskEnergy recognizes the need to have a workforce that is diverse and skilled in order to be successful in the future. This measure tracks the Corporation's ability to do so by utilizing strategic hiring practices.

In 2008, SaskEnergy met or exceeded its target in a number of representative workforce areas such as Aboriginal (13.7 per cent), Youth (17.3 per cent) and Visible Minorities (3.4 per cent). The Corporation was slightly below its target in the areas of Women (39.3 per cent) and People with Disabilities (3.6 per cent) and was short of its overall Diversity Hires stretch target (31.5 per cent). Although the Corporation strives to maintain a high diversity hire rate, it also recognizes the importance of hiring youth in the company, which is a group that is not included as part of the overall diversity

target. In 2008, 41.0 per cent of all hires were youth. When this fact is considered in conjunction with the diversity hire result, SaskEnergy was successful in hiring 72.0 per cent of its employees in 2008 as either youth or diversity.

In 2009, the Corporation will leverage alliances with Saskatchewan high schools and work with post-secondary institutions to deliver potential new employees in professional/trades areas. SaskEnergy will also grow relationships with Saskatchewan Tribal Councils, the Regina Open Door Society, Saskatchewan Independent Living Centre and the Saskatchewan Visible Minority Employees Association to more effectively recruit potential employees.



Kelly Cameron is a member of SAGE and has been instrumental in mentoring new Aboriginal employees who have come into the company through the TAWAW program. Dustin Venne is one such employee who benefitted from this key partnership with DTI/SIIT and, along with Kelly's guidance, earned his position as a Service Technician (QP).

Kelly Cameron, Manager, Materials Management in Saskatoon and SAGE member
Dustin Venne, Service Technician Qualifying Program (QP) – Tisdale

RISK MANAGEMENT

The transmission, storage, distribution and sale of natural gas business activities are subject to a number of risks, which can affect the success of SaskEnergy in achieving its business objectives. These risks, their potential impact on the business and SaskEnergy's risk management strategies are discussed in the following table.

SaskEnergy's approach to risk management is to take only those risks for which it has appropriate resources, expertise and financial capacity to manage. Additionally, SaskEnergy endeavors to fully understand the nature of the risks it accepts and the impact of those risks so that effective policies and procedures can be developed.

Risk Type	Significance	Description	Impact	How is it managed?
Natural gas price risk	Very High	SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells this natural gas to utility customers at fixed rates. SaskEnergy buys and sells natural gas in its natural gas marketing business and may be exposed to price movement for short periods.	A $1.00 per GJ change in the market price of natural gas affects the annual purchase cost of natural gas by approximately $55 million. Losses are limited to less than $2 million per year by policy.	The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through SaskEnergy's natural gas price risk management program. Also, SaskEnergy accumulates differences between the cost of gas sold and its rate in a GCVA. The balance in the GCVA may be recovered from or refunded to customers in subsequent periods. Natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily.
Winter weather	High	In Saskatchewan, variability in winter weather temperature has a direct impact on the volume of natural gas consumed by utility customers. Generally, a cold winter will result in higher natural gas purchase prices while a warm winter will result in lower prices.	Every 10 per cent change in heating degree days affects SaskEnergy's distribution utility revenue by approximately $7 million.	SaskEnergy earns a portion of its revenue through a fixed Basic Monthly Charge which ensures it generates revenue from customers regardless of the level of natural gas consumption. The impact of higher or lower natural gas prices is discussed above under the natural gas price risk discussion.
Operational risk	High	Operational hazards include severe weather conditions, fire, human error, mechanical failures, third-party encroachment on a pipeline, hazardous materials and acts of civil disobedience, sabotage and riots. Operational hazards could disrupt the effective operation of SaskEnergy's natural gas storage, distribution or transmission infrastructure, potentially resulting in financial loss or service interruption.	The incidence of operational risks threatens service reliability, employee and public safety and damages pipelines requiring financial investment to repair.	SaskEnergy mitigates its operational risks through system integrity programs, public awareness programs, employee and operator training, operating manuals and procedures and safety programs. The financial impact of these risks is also mitigated, where possible, through insurance. Additionally, the pipeline system is designed with sufficient capacity to meet customer demand in an extremely cold winter. When the system is not operating at capacity, the winter design capacity enables the system to meet demand even in the event of a disruption.
Regulatory risk	High	The rates that utilities may charge their customers for services are determined in a regulatory process. The recommendations of the regulatory body, the Saskatchewan Rate Review Panel, and the decisions by Provincial Cabinet have a direct effect on the financial results of the utility.	The impact of a one per cent differential between a commodity rate increase request and the approved commodity rate is approximately $4 million.	SaskEnergy follows standard regulatory principles in designing rates and operating its system and presents these practices to the regulator in its rate applications.
Counterparty credit risk	High	Failure of a counterparty to fulfill contractual financial commitments due to financial distresses such as bankruptcy and insolvency.	The amount of credit extended to individual counterparties is limited so that the annual expected loss should average less than $4 million and should never exceed $30 million in a single year.	SaskEnergy mitigates credit risk by constantly reviewing the creditworthiness of large customers and contractual counterparties, limiting the maximum amount of credit extended to any entity and continually monitoring its customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and entities judged to have inadequate credit are required to post security.
Execution risk	Moderate	A shortage of manpower or expertise adversely affects SaskEnergy's ability to properly assess or implement an effective business development strategy.	Growth opportunities are less profitable than current enterprise, reducing overall profit.	SaskEnergy has implemented a Strategic Plan to ensure that adequate resources are acquired and applied in areas of highest priority.

Risk Type	Significance	Description	Impact	How is it managed?
Interest rate risk	Moderate	SaskEnergy has a significant capital investment in physical assets. About 65 per cent of that investment is financed by issuing debt. The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure.	For every $10 million of debt issued in a year, a 0.25 per cent change in the interest rate will affect annual interest expense by approximately $25,000. SaskEnergy refinances approximately $50 million of long-term debt each year.	SaskEnergy manages interest rate risk by financing long-term capital requirements with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk in any single year. In addition, SaskEnergy may use financial instruments to hedge short-term debt from changes in interest rates.
Declining system throughput	Moderate	While there are currently adequate supplies of natural gas to meet demand within Saskatchewan, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a longer-term issue. Conservation initiatives by customers have reduced the average volume of natural gas usage per customer. Conservation initiatives tend to have a higher impact on customer usage in a high natural gas price environment.	As throughput declines, the unit cost of service increases. As use per customer declines, the fixed costs of the pipeline system are recovered over lower sales volumes.	SaskEnergy promotes the conservation efforts of its customers. Further into the future, nonconventional sources of natural gas such as the Mackenzie Valley Pipeline, natural gas in coal and liquefied natural gas will supplement conventional supplies. SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate setting process.
Customer credit risk	Moderate	SaskEnergy delivers natural gas to its customers and bills them at the end of each month. When a customer fails to pay for the service received, SaskEnergy realizes a financial loss equivalent to the cost of the natural gas delivered and the cost of delivering the natural gas. Credit risk generally increases as provincial economic conditions worsen.	Bad debts of SaskEnergy's customers have historically been between 0.15 per cent and 0.54 per cent of delivery and commodity revenue.	SaskEnergy mitigates its credit risk by requiring new customers to provide security deposits prior to receiving service and closely monitoring payments on accounts. Customers who fail to pay their bills have their service terminated and are denied service until their outstanding account is settled.
Environmental risk	Moderate	The gathering, compression, storage, transmission and distribution of natural gas involve the use of certain chemicals and materials that are considered hazardous to the environment and require special handling procedures. Federal Government GHG conventions present additional risk to SaskEnergy because methane, the largest component of natural gas, is considered a GHG. Consequently, the release of natural gas into the environment may contribute to Global Warming.	Uncontrolled release of liquid substances or natural gas into the environment (soil, water and air).	The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution as well as employee and operator training. SaskEnergy is working to reduce its GHG emissions to limit its impact on the environment and to manage the financial risks associated with this environmental issue.
Provincial economy	Low	SaskEnergy currently serves more than 90 per cent of all communities in Saskatchewan. Increasingly, it is becoming difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service within the existing service area depend upon economic growth. Recently, economic growth has put pressure on SaskEnergy's capacity to meet demand for new services.	Growth in the number of customers within the existing service area helps to reduce the unit cost of service. Higher construction and maintenance costs.	SaskEnergy has cost containment strategies to ensure that rising costs do not significantly exceed the growth of the system. Service is only expanded where the anticipated incremental revenue is sufficient to recover incremental cost of service to ensure that existing customers are not adversely affected by the addition of new customers. SaskEnergy has franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customer demand where economically feasible.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) applied on a consistent basis. The Corporation's accounting policies are described in Note 2 of the accompanying Consolidated Financial Statements. The preparation of these statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and judgments are prepared using assumptions management believes to be most probable in the circumstances. Consequently, actual results may vary from these estimates. SaskEnergy's critical accounting policies and estimates have been summarized below.

Amortization of Property, Plant and Equipment

Property, plant and equipment are a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of amortization expense may have a significant impact on SaskEnergy's net income.

The Corporation's property, plant and equipment are amortized on a straight-line basis over the estimated service life of the asset. SaskEnergy assesses the estimated service life of its assets on an ongoing basis. Any resulting changes in the estimated service life of an asset are treated as a prospective adjustment to amortization.

Effective January 1, 2008, the Corporation reduced the amortization rates of its distribution assets and vehicles, equipment and other assets based on the results of a depreciation study conducted by an independent third party. The impact of implementing these changes in amortization rates resulted in a decrease in amortization expense of approximately $1 million for the year.

Financial Instruments

The Corporation uses various natural gas derivative instruments, mainly physical contracts, swaps and options, to manage the risk of natural gas price fluctuations. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value.

The fair values of physical contracts and swaps are determined using quoted market prices as at year end. The fair values of options are determined using the Garman-Kohlhagen option pricing model that requires the use of different assumptions, including quoted market prices as at year end, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. In valuing each derivative instrument, assumptions are also made as to the credit quality of the counterparty. Markets for the Corporation's derivative contracts remained active throughout 2008. As a result, external market sources continued, along with an assessment of credit and liquidity risk, to be used in determining the fair value of these contracts.

Up to the date of settlement, changes in the fair value of natural gas derivative instruments are recorded as unrealized gains or losses in the statement of income during the period of change. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract until final settlement occurs. As a result, the fair value amounts recorded at year end will be subject to change as market conditions change.

Revenue Recognition

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. As it is impractical to read all customer meters on December 31 each year, an estimate of the volume of natural gas delivered but unbilled is recognized. The volume of unbilled sales is determined by comparing the total estimated volume of natural gas that entered the distribution system to the total volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased to volumes billed. The unbilled revenue related to commodity sales and delivery revenue as at December 31 was $44 million.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008 SaskEnergy adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook sections in accordance with the transitional provisions of each section:

Handbook Section	Requirements	Impact
Section 1535 – Capital Disclosures	New disclosure required about an entity's capital and how it is managed.	Additional disclosure included in Note 4 of the Consolidated Financial Statements with no impact on the Corporation's operating results.
Section 3031 – Inventories	New recommendations on accounting treatment for inventories, primarily related to recognition and measurement.	Changed to weighted average cost method for valuing all natural gas inventories resulting in $5 million decrease in natural gas in storage held for resale, $3 million decrease in accounts payable and $2 million decrease in retained earnings as at January 1, 2008. Additional disclosure is included in Note 6 of the Consolidated Financial Statements.
Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation	Increased disclosure related to the Corporation's financial instruments and the nature, extent and management of the related risks.	Additional disclosure included in Note 17 of the Consolidated Financial Statements with no impact on the Corporation's operating results.

For additional information related to these changes in accounting policies, refer to Note 3 of the Consolidated Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA has adopted the following new accounting requirements which SaskEnergy will be adopting in future periods in accordance with the transitional provisions of each section:

Handbook Section	Requirements	Impact
Section 3064 – Goodwill and Intangible Assets	Effective January 1, 2009 new recommendations for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.	Impact not yet determined, except that computer software will be reclassified from property, plant and equipment to intangible assets, but is not expected to be material.
Section 1582 – Business Combinations	Effective January 1, 2011 new recommendations for the accounting and disclosure of business combinations.	No adjustments required for business combinations occurring before January 1, 2011 but would impact any future business combinations.
Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests	Effective January 1, 2011 new recommendations for preparation of consolidated financial statements and accounting for the non-controlling interest in a subsidiary.	Impact not yet determined but is not expected to be material as SaskEnergy's subsidiaries do not have non-controlling interests.

In addition to the above accounting policies, effective January 1, 2011 publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS). IFRS, like current Canadian GAAP, are a principle-based set of standards. However, there are areas where the accounting treatment of IFRS differs from Canadian GAAP. SaskEnergy is currently evaluating IFRS to determine which areas of the Corporation's financial reporting will be impacted. In conjunction with evaluating the IFRS accounting standards, a review of the information technology and data systems' capability to provide the information required by IFRS will be performed. SaskEnergy is currently engaged in educational activities to expand its knowledge of IFRS. The Corporation has retained a service provider to provide expertise in the implementation of IFRS.

For additional information related to these future changes in accounting policies, refer to Note 2 of the Consolidated Financial Statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements are the responsibility of the management of SaskEnergy. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments where applicable.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this annual report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

The Corporation's Board of Directors (the Board), is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of directors who are not employees of the Corporation. The Committee reviews the annual report and meets regularly with management, internal audit and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.

Doug Kelln
President and Chief Executive Officer

Greg Mrazek
Vice-President, Finance and Chief Financial Officer

February 17, 2009

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2008 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

SASKENERGY INCORPORATED

Consolidated Statement of Financial Position
As at December 31
(millions of dollars)

	2008	2007
ASSETS		
Current assets		
Cash	$ 4	$ 2
Accounts receivable (Note 5)	163	131
Natural gas in storage held for resale (Note 6)	199	149
Inventories of supplies (Note 7)	17	13
Debt retirement funds (Note 8)	–	3
Fair value of derivative instruments	46	26
	429	324
Property, plant and equipment (Note 9)	1,008	978
Natural gas in storage held for resale and operations (Note 6)	35	36
Debt retirement funds (Note 8)	48	40
Investments and other assets (Note 10)	41	33
	$ 1,561	$ 1,411
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities		
Short-term debt (Note 11)	$ 164	$ 88
Accounts payable (Note 12)	136	136
Dividends payable	6	7
Current portion of long-term debt (Note 11)	39	75
Fair value of derivative instruments	61	18
	406	324
Asset retirement obligations (Note 13)	8	8
Long-term debt (Note 11)	714	633
	1,128	965
Province of Saskatchewan's equity		
Retained earnings	364	379
Accumulated other comprehensive loss (Note 14)	(3)	(5)
	361	374
Equity advances (Note 15)	72	72
	433	446
	$ 1,561	$ 1,411

Commitments and contingencies (Note 16)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED

Consolidated Statement of Income and Retained Earnings
Years ended December 31
(millions of dollars)

	2008	2007
REVENUE		
Commodity sales	$ 441	$ 400
Gas marketing sales	576	485
Delivery	182	167
Transportation and storage	77	82
Revenue collected for municipalities (Note 18)	25	24
Other (Note 19)	16	13
	1,317	1,171
EXPENSES		
Commodity cost of gas sold	479	373
Gas marketing cost of gas sold	539	450
Operating and maintenance	139	132
Interest (Note 20)	41	43
Amortization (Note 9)	56	54
Payment to municipalities (Note 18)	25	24
Saskatchewan taxes (Note 21)	8	7
	1,287	1,083
Net income	30	88
Retained earnings, beginning of year	379	344
Change in accounting policy (Note 3)	(2)	–
Dividends	(43)	(53)
Retained earnings, end of year	$ 364	$ 379

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Comprehensive Income
Years ended December 31
(millions of dollars)

	2008	2007
Net Income	$ 30	$ 88
OTHER COMPREHENSIVE INCOME		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	–	1
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	2	(3)
Comprehensive income	$ 32	$ 86

SASKENERGY INCORPORATED

Consolidated Statement of Accumulated Other Comprehensive Loss
Years ended December 31
(millions of dollars)

	2008	2007
Accumulated other comprehensive loss, beginning of year	$ (5)	$ (2)
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	–	(1)
Other comprehensive income (loss)	2	(2)
Accumulated other comprehensive loss, end of year	$ (3)	$ (5)

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Cash Flows
Years ended December 31
(millions of dollars)

	2008	2007
OPERATING ACTIVITIES		
Net income	$ 30	$ 88
Add (deduct) items not requiring an outlay of cash		
Amortization	56	54
Change in fair value derivative instruments	23	(21)
Debt retirement funds	(2)	(2)
Equity earnings	(2)	(2)
Asset retirement obligations	–	2
Other	1	2
	106	121
Net change in non-cash working capital related to operations (Note 22)	(86)	(19)
Decrease in natural gas in storage – non-current	1	–
Cash provided by operating activities	21	102
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(124)	(94)
Additions to investments and other assets	(5)	(4)
Capital contributions received (Note 9)	37	23
Acquisition	–	(6)
Increase in natural gas storage – non-current	–	(4)
Cash used in investing activities	(92)	(85)
FINANCING ACTIVITIES		
Decrease in bank indebtedness	–	(2)
Increase in short-term debt	75	19
Proceeds from long-term debt	120	75
Repayments of long-term debt (net)	(75)	(43)
Debt retirement fund installments	(6)	(5)
Debt retirement fund redemptions	3	–
Increase in deferred charges	–	(1)
Dividends paid	(44)	(58)
Cash provided by (used in) financing activities	73	(15)
Increase in cash during the year	2	2
Cash position, beginning of year	2	–
Cash position, end of year	$ 4	$ 2

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

The Corporation owns and operates natural gas–related businesses located both within and outside Saskatchewan.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries, Bayhurst Gas Limited, Bayhurst Energy Services Corporation (and its ten wholly owned subsidiaries), Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership, the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited, accounted for as a joint venture, and the 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 25. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value and is accounted for on a weighted average cost basis.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

2. Summary of Significant Accounting Policies (continued)

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (per cent)

Transmission and storage	2.5	to	2.6
Distribution	2.5	to	3.5
Gathering, treatment and compression	2.5	to	3.5
Computer hardware	20.0	to	33.3
Computer software	10.0	to	20.0
Vehicles, equipment and other	2.5	to	16.4

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

e. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

f. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as

2. Summary of Significant Accounting Policies (continued)

held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Short-term debt, accounts payable, and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive income while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses deferred in accumulated other comprehensive loss are reclassified in interest expense in the same period as the hedged item is settled. The Corporation uses hedge accounting for foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. Gains or losses are recognized in other comprehensive income and reclassified to amortization expense over the life of the related capital asset. Interest rate swaps and foreign currency forward contracts may be designated as cash flow hedges.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 17.

Embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Province of Saskatchewan's equity.

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and

2. Summary of Significant Accounting Policies (continued)

assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation, storage and related services rendered, but not billed, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements and the ultimate collection is reasonably assured.

Natural gas and liquid sales, included in other revenue, is recognized when natural gas and natural gas liquids are delivered to customers and ultimate collection is reasonably assured.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

i. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

j. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multi-employer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

k. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

2. Summary of Significant Accounting Policies (continued)

The CICA has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting of business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 17.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3031 – Inventories in accordance with the transition provisions. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs to recognize subsequent increases to net realizable value. Also, guidance is provided related to reclassification of inventory items as property, plant and equipment. The standard requires retrospective application with no restatement of prior year results.

Upon the adoption of the new standard, SaskEnergy began using the weighted average cost method for valuing all natural gas inventories. The impact of applying this change in accounting policy effective January 1, 2008 was as follows:

	January 1, 2008 (millions)
Natural gas in storage held for resale	$ (5)
Total assets	$ (5)
Accounts payable	$ (3)
Retained earnings	(2)
Total liabilities and equity	$ (5)

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1.3 billion of debt upon approval of the Lieutenant Governor in Council. As at December 31, 2008, SaskEnergy had $898 million of debt outstanding, authority to borrow an additional $249 million of temporary loans, and a $35 million uncommitted line of credit with Toronto-Dominion Bank.

The Corporation borrows all of its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan. Given the Province of Saskatchewan's strong credit rating, the Corporation was able to acquire all of its funding requirements during 2008. SaskEnergy's borrowing requirement constitutes a minor portion of the Government of Saskatchewan's total expenditures.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline and distribution utilities. SaskEnergy adjusts its dividend payments to CIC to maintain its debt ratio at industry comparable levels. The purpose of this strategy is to ensure that SaskEnergy's debt is considered self supporting and does not adversely affect the Province's access to capital markets. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2008	2007
	(millions)	
Gross long-term debt	**$ 753**	$ 708
Short-term debt	**164**	88
Debt retirement funds	**(48)**	(43)
Cash	**(4)**	(2)
Total net debt	**865**	751
Equity advances	**72**	72
Retained earnings	**364**	379
Total capital	**$ 1,301**	$ 1,202
Debt ratio	**66.5%**	62.5%

SaskEnergy complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(millions)	
Unbilled revenue	**$ 44**	$ 79
Trade accounts	**114**	47
Other receivables	**5**	5
	$ 163	$ 131

6. Natural Gas in Storage Held for Resale and Operations

During the year, $959 million of natural gas in storage held for resale (2007 – $805 million) was recognized as cost of gas sold.

7. Inventories of Supplies

During the year, $2 million of inventories of supplies (2007 – $2 million) were expensed. There was no write-down of inventory of supplies and no reversal of any prior period write-down during 2008.

8. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.8 per cent for 2008 (2007 – 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (millions)

2009	2010	2011	2012	2013
$ 7	$ 7	$ 6	$ 6	$ 6

9. Property, Plant and Equipment

	2008			2007		
				(millions)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Distribution	$ 753	$ 246	$ 507	$ 709	$ 228	$ 481
Transmission and storage	703	245	458	678	226	452
Gathering, treatment and compression	172	77	95	168	71	97
Vehicles, equipment and other	104	49	55	105	48	57
Computers	82	56	26	75	53	22
Franchise acquisition costs	2	1	1	2	–	2
Construction in progress	49	–	49	17	–	17
	$ 1,865	$ 674	1,191	$ 1,754	$ 626	1,128
Less: Unamortized customer capital contributions			183			150
			$ 1,008			$ 978

9. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2008	2007
	(millions)	
Customer capital contributions, beginning of year	**$ 150**	$ 131
Contributions received	**37**	23
Amortization of contributions	**(4)**	(4)
Customer capital contributions, end of year	**$ 183**	$ 150

b. Amortization

	2008	2007
	(millions)	
Amortization of property, plant and equipment	**$ 60**	$ 58
Amortization of customer capital contributions	**(4)**	(4)
	$ 56	$ 54

The estimated service lives are based on depreciation studies with annual reviews for reasonableness. During 2007, a depreciation study was conducted by an independent third party. As a result of this study, the amortization rates of certain distribution and other assets changed. The impact of this change was applied on a prospective basis commencing January 1, 2008. The estimated impact was a $1 million decrease to the amortization expense for the year ended December 31, 2008.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.3 per cent during 2008 (2007 – 3.4 per cent).

10. Investments and Other Assets

Investments and other assets are as follows:

	2008		2007	
	Amount (millions)	Ownership (per cent)	Amount (millions)	Ownership (per cent)
Equity investments				
Gas Sur S.A.				
Initial investment	**$ 14**	**30.0**	$ 14	30.0
Accumulated equity earnings	**4**		3	
Foreign currency translation adjustment	**(3)**		(2)	
	15		15	
IGASAMEX USA Ltd.				
Initial investment	**11**	**40.1**	11	40.1
Accumulated equity earnings	**3**		2	
Foreign currency translation adjustment	**(1)**		(3)	
	13		10	
	28		25	
Other receivables	**13**		8	
	$ 41		$ 33	

Equity investments:

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2008 net income was $1 million (2007 – $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2008 resulted in a $1 million reduction in the balance of the investment in Gas Sur S.A. (2007 – $1 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million (2007 – $5 million).

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2008 net income was $1 million (2007 – $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2008 resulted in a $2 million increase in the balance of the investment in IGASAMEX USA Ltd. (2007 – $2 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $5 million (2007 – $5 million).

11. Long-Term and Short-Term Debt

Years to Maturity	2008 Principal Outstanding (millions)	2008 Average Fixed Interest Rate (per cent)	2007 Principal Outstanding (millions)	2007 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1–5	**$ 169**	**6.7**	$ 244	7.1
6–10	**259**	**4.7**	214	4.7
11–15	**34**	**6.7**	34	6.7
16–35	**285**	**6.5**	210	6.9
	747		702	
Unamortized premium/discount and issue costs	**(1)**		(1)	
Less due within one year	**(39)**		(75)	
Due to Province of Saskatchewan	**707**		626	
Other long-term debt	**7**	**9.5**	7	9.7
	$ 714		$ 633	

The effective interest rate on long-term debt was 5.9 per cent (2007 – 6.3 per cent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (millions)

2009	2010	2011	2012	2013
$ 39	$ 80	$ –	$ 50	$ –

c. Short-term debt

During 2008, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 2.5 per cent (2007 – 4.3 per cent).

Short-term debt at December 31, 2008 consists of $164 million (2007 – $88 million) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 1.4 per cent (2007 – 3.9 per cent).

12. Accounts Payable

	2008	2007
	(millions)	
Supplier payables	$ 77	$ 77
Interest payable	9	12
Other payables	50	47
	$ 136	$ 136

13. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2009 to 2016 has been assumed.

As at December 31, the estimated future cash flows required to settle these obligations were $10 million (2007 – $9 million), which were discounted to $8 million (2007 – $8 million) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent.

	2008	2007
	(millions)	
Asset retirement obligations, beginning of year	$ 8	$ 6
Liabilities incurred	–	2
Asset retirement obligations, end of year	$ 8	$ 8

14. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2008	2007
	(millions)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (3)	$ (5)

15. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

16. Commitments and Contingencies

a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

16. Commitments and Contingencies (continued)

c. Leases

Future payments under operating leases are as follows: (millions)

2009	2010	2011	2012	2013	Thereafter	Total
$ 4	$ 4	$ 3	$ –	$ –	$ –	$ 11

17. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	Fair Amount	Carrying Amount	Fair Amount
	(millions)			
Other liabilities				
Long-term debt	**$ 753**	**$ 853**	$ 708	$ 798
Held-for-trading				
Debt retirement funds	**48**	**48**	43	43

The fair value of the above instruments was based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. SaskEnergy has sufficient borrowing capacity to fund these contractual obligations. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2008 has been used to estimate the contract price. At December 31, 2008, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

17. Financial Instruments and Risk Management (continued)

As at December 31, 2008, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2009	2010	2011	2012	2013	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ 10	$ 1	$ –	$ –	$ –	$ 11
Notional value	(228)	10	4	1	–	(213)
Natural gas price swaps						
Fair value	(17)	1	–	–	–	(16)
Notional value	(17)	1	–	–	–	(16)
Natural gas price options						
Fair value	(10)	–	–	–	–	(10)
Notional value	(8)	–	–	–	–	(8)
Total						
Fair value	$ (17)	$ 2	$ –	$ –	$ –	$ (15)
Notional value	$(253)	$ 11	$ 4	$ 1	$ –	$(237)

Fair value – increase (decrease)

Notional value – estimated net cash inflow (outflow)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	2008	2007
	(millions)	
Fair value of derivative instrument assets	**$ 46**	$ 26
Fair value of derivative instrument liabilities	**(61)**	(18)
	$ (15)	$ 8

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category.

For the year ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2008	2007
	(millions)	
Derivative instruments		
Gas marketing sales	**$ 31**	$ 8
Commodity cost of gas sold	**(47)**	18
Gas marketing cost of gas sold	**(9)**	(6)
	(25)	20
Financial instruments		
Gas marketing cost of gas sold	**1**	–
Interest expense	**(1)**	–
(Decrease) increase in net income	**$ (25)**	$ 20

17. Financial Instruments and Risk Management (continued)

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's December 31, 2008 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas contracts, by $7 million. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $7 million.

ii. Foreign currency exchange and interest rate risk

The Corporation may use derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. During the year ended December 31, 2008 the Corporation did not enter into or settle any such instruments.

For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options. During the year ended December 31, 2008 the impact of these instruments on net income was $nil (2007 – $nil).

At year end, the Corporation had $164 million of short-term debt which is refinanced quarterly. In addition, $39 million of long-term debt will mature in 2009 at which time it will be refinanced. Based on the short-term debt balance as at December 31, 2008 and the long-term debt maturing in 2009, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately $2 million.

17. Financial Instruments and Risk Management (continued)

iii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	7 – 12 months	1 – 2 years	3 – 5 years	More than 5 years
			(millions)		
Short-term debt	$ 164	$ –	$ –	$ –	$ –
Accounts payable	136	–	–	–	–
Dividends payable	6	–	–	–	–
Derivative instruments	183	71	–	–	–
Long-term debt	33	50	120	153	944
Debt retirement fund installments	4	4	7	18	63
	$ 526	$ 125	$ 127	$ 171	$ 1,007

The long-term debt obligations include principal and interest payments.

iv. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single counterparty was $14 million (2007 – $8 million).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2008	2007
	(millions)	
Cash	**$ 4**	$ 2
Accounts receivable	**163**	131
Debt retirement funds	**48**	43
Fair value of derivative instrument assets	**46**	26
Maximum credit exposure	**$ 261**	$ 202

17. Financial Instruments and Risk Management (continued)

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(millions)	
Current	$ 158	$ 127
30 – 59 days	3	4
60 – 89 days	1	1
Greater than 90 days	2	–
	164	132
Allowance for doubtful accounts	(1)	(1)
	$ 163	$ 131

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance are as follows:

	2008	2007
	(millions)	
Allowance for doubtful accounts, beginning of year	$ 1	$ 2
Provision	1	1
Recoveries	2	2
Write-offs	(3)	(4)
Allowance for doubtful accounts, end of year	$ 1	$ 1

18. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of income. In 2008, revenue collected for and paid to municipalities was $23 million (2007 – $21 million).

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of income. In 2008, revenue collected for and paid to municipalities was $2 million (2007 – $3 million).

19. Other Revenue

	2008	2007
	(millions)	
Royalty revenue	$ 6	$ 5
Natural gas and liquid sales	8	6
Income from investments accounted for by the equity method	2	2
	$ 16	$ 13

20. Interest Expense

	2008	2007
	(millions)	
Interest expense on long-term debt	$ 41	$ 44
Interest expense on short-term debt	4	2
Amortization of debt premium/ discount and issue costs	1	1
Debt retirement funds earnings	(3)	(2)
Debt retirement funds fair value adjustment	1	–
Interest capitalized	(1)	–
Interest allocation to commodity cost of gas sold	(2)	(2)
	$ 41	$ 43

Interest paid during 2008 on long-term debt was $44 million (2007 – $44 million).

21. Saskatchewan Taxes

	2008	2007
	(millions)	
Corporate capital tax	$ 6	$ 5
Property taxes and other	2	2
	$ 8	$ 7

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

22. Net Change in Non-Cash Working Capital

	2008	2007
	(millions)	
Accounts receivable	$ (32)	$ 8
Natural gas in storage held for resale	(50)	(25)
Inventories of supplies	(4)	(6)
Accounts payable	–	4
	$ (86)	$ (19)

23. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2008	2007
	(millions)	
Revenue	$ 48	$ 49
Operating expenses	32	29
Customer capital contributions	35	14
Accounts receivable	3	2
Accounts payable	1	1

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

24. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $4 million (2007 – $4 million) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive,

24. Employee Future Benefits (continued)

management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2008	2007
	(millions)	
Accrued benefit liability	**$ 14**	$ 16
Benefits paid during the year	**1**	1
Net expense	**(1)**	3

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2008	2007
Discount rate (per cent)	**7.1**	5.0
Inflation rate (per cent)	**2.5**	2.5
Average remaining employee service life (years)	**8.3**	9.0

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

25. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

a. SaskEnergy Incorporated

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order in Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2g. SaskEnergy's delivery revenue was $171 million for 2008 (2007 – $158 million) and commodity revenue was $432 million for 2008 (2007 – $395 million).

Cost of gas sold is accounted for in accordance with the policy described in note 2h.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

25. Rate Regulation (continued)

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2g. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

b. TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2g. TransGas transportation revenue was $60 million for 2008 (2007 – $66 million).

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2g. MIPL transportation revenue was $1 million for 2008 (2007 – $1 million).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $1 million for 2008 (2007 – $1 million) and commodity revenue was $1 million for 2008 (2007 – $1 million).

e. Heritage Gas Limited (Heritage Gas)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia. The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The most recent completed GTA process occurred in 2006 which established the Company's revenue requirement and rates to be charged to various customer classes for the period January 1, 2007 – December 31, 2011.

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB.

25. Rate Regulation (continued)

During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return, and the RDA will be drawn down.

The RDA, included in investments and other assets, as at December 31, 2008 was $13 million (2007 – $9 million). The effect of the RDA accumulation was to increase revenue in 2008 by $4 million (2007 – $3 million). In the absence of rate-regulated accounting, GAAP would not have permitted the RDA to be recorded.

iv. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

v. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses to 2011. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Income taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

26. Joint Ventures

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas, accounted for as a joint venture, and its 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2008	2007
	(millions)	
Current assets	$ 4	$ 4
Property, plant and equipment	51	43
Regulatory receivable	13	8
Current liabilities	(4)	(6)
Investment in joint ventures	$ 64	$ 49

b. Consolidated statement of income

	2008	2007
	(millions)	
Revenue	$ 18	$ 10
Expenses	(12)	(6)
Income from joint ventures	$ 6	$ 4

c. Consolidated statement of cash flows

	2008	2007
	(millions)	
Cash (used in) provided by operating activities	$ (1)	$ 1
Cash used in investing activities	(9)	(11)
Decrease in cash	$ (10)	$ (10)

27. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

BOARD OF DIRECTORS

Robert Pletch, Q.C.
Chairman
MacPherson Leslie & Tyerman LLP
(Board Chair)
Regina, Saskatchewan
Board member since February 6, 2008

Mr. Pletch has actively served the Saskatchewan business community in the areas of commercial and corporate law for over thirty years. As Chairman and a Senior Partner of MacPherson Leslie & Tyerman LLP, he has acted for major clients regarding mergers, acquisitions, financings and development strategies. After earning his Bachelor of Arts degree in History (with Great Distinction) from the University of Saskatchewan in 1967 and his Bachelor of Laws from Queen's University in 1971, he was admitted to the Saskatchewan Bar in 1972.

Nadine Krenosky
Chief Compliance Officer
Greystone Managed Investments Inc.
(Board Vice Chair)
Regina, Saskatchewan
Board member since March 30, 2004

Ms. Krenosky joined Greystone Managed Investments Inc. in 2002 and obtained her Chartered Financial Analyst charter in 2006. She is currently the Vice President of Compliance at Greystone Managed Investments Inc. and holds a Bachelor of Administration from the University of Regina. After articling with Ernst & Young, Ms. Krenosky received her Chartered Accountant designation in 1999 and continued in public practice until 2002.

James Baker
President
Churchill Energy Inc.
Regina, Saskatchewan
Board member since February 6, 2008

Mr. Baker has extensive experience in the oil and gas industry and is currently the President of Churchill Energy Inc., a TSX listed junior oil and gas exploration company based in Calgary, Alberta. Prior to this role, Mr. Baker operated a consulting business specializing in business development of oil- and gas-related initiatives in Saskatchewan and Alberta. Prior, he was an executive officer for Lateral Vector Resources, a publicly traded oil and gas company, and with North Canadian Oils (NCO) in its Regina office, where he was responsible for government relations and royalty issues, especially those in relation to the deregulation of the natural gas industry in the Province.

David Bishop
Lawyer
McKercher LLP
Regina, Saskatchewan
Board member since February 6, 2008

Mr. Bishop is a partner in the firm McKercher LLP where he practices commercial and residential real estate law, business law, criminal defence, criminal prosecution (as an agent of the Attorney General for Canada) and elder law. He holds memberships with the Regina Bar Association, the Law Society of Saskatchewan and the Canadian Bar Association and is also a member of the Regina Chamber of Commerce. Mr. Bishop received his Bachelor of Arts (with Honours) in History in 1987 and his Bachelor of Laws in 1990, both from the University of Saskatchewan and was admitted to the Saskatchewan Bar in 1991.

Ralph Hesje, P. Eng.
President
Hesje & Associates Inc.
Calgary, Alberta
Board member since December 21, 2000

Mr. Hesje has worked in the energy industry since 1974, including several years of international service. After graduating from the University of Saskatchewan with a degree in Mechanical Engineering, Mr. Hesje worked for companies in the pipeline, natural gas distribution and construction industries in Argentina, Brazil, Canada and the United States. He is currently President of Hesje & Associates Inc. in Calgary, Alberta which provides executive services for value creation to the energy industry, including strategy development and implementation.

Daryl Labach
Lawyer
McDougall Gauley LLP
Saskatoon, Saskatchewan
Board member since February 6, 2008

Mr. Labach is currently a partner at McDougall Gauley LLP and his province-wide practice has focused primarily in the area of criminal defence. Mr. Labach has acted as a member of the strategic planning team composed of legal practitioners and judges to work with the Government for better facilitation of the judicial system in Saskatchewan. He is a past president of the Saskatoon Criminal Defence Lawyers Association and has been appointed an inquest coroner for the Province of Saskatchewan. After earning his Bachelor of Arts in 1984 and his Bachelor of Laws in 1988, both from the University of Saskatchewan, Mr. Labach was admitted to the Saskatchewan Bar.

Brad Nelson
General Manager
Honey Bee Manufacturing Ltd.
Frontier, Saskatchewan
Board member since February 6, 2008

Mr. Nelson has a variety of experience in corporate directorship starting in 1991 as a Director for Frenchman Valley Regional Development Committee and later from 2002–2005 as a Director at Briercrest Family of Schools in Caronport, Saskatchewan. His knowledge of the agricultural industry has been built over many years of manufacturing agricultural equipment within Saskatchewan. Since 1975, he has been involved in the agricultural industry and is currently the General Manager of Honey Bee Manufacturing Ltd. in Frontier, Saskatchewan.

James Rybchuk, Q.C.
Lawyer
McDougall Gauley LLP
Regina, Saskatchewan
Board member since February 6, 2008

Mr. Rybchuk received his Bachelor of Laws from the University of Saskatchewan in 1994 and was admitted to the Saskatchewan Bar. Since then, he has worked and become a partner in the Regina office of McDougall Gauley LLP. He carries on a broad practice of law with particular emphasis on business law and litigation. He acts for and advises provincial, national and international businesses and governments on their governance, organizational and related business affairs and dealings, including the day-to-day management and operations of their interests. He also practices in the areas of commercial and residential real estate and development, tax, trusts and estate planning and acts as a negotiator and mediator in various matters, including the resolution of contractual and commercial law disputes. Mr. Rybchuk is also the Director of HTC Purenergy Inc., an energy technology company located in Regina and an adjunct professor of law at the University of Regina, Faculty of Business.

Victor Thomas
Global Bridgeway Inc.
Vice President – International
Regina, Saskatchewan
Board member since February 6, 2008

Mr. Thomas currently works for Global Bridgeway Inc., a business development firm based out of Regina and has been acknowledged both locally and nationally for his leadership and public speaking. His strategic focus is on providing leadership expertise in a global organization. He was a former Student Union President of the University of Regina where he worked full-time, managed a sizeable budget and staff while earning a degree in Business Administration. He has also completed certificate programs from York University in Ontario, Université St. Anne in Nova Scotia and University of Ulsan in South Korea.

Neil Henneberg
Crown Investments Corporation of Saskatchewan
(Board Secretary)
Regina, Saskatchewan

Mr. Henneberg has worked in the Saskatchewan Crown sector for over 20 years, including 12 years with SaskEnergy Incorporated. He has been at Crown Investments Corporation of Saskatchewan (CIC) since 2000, in the Strategy and Governance Division, and has acted as the Board Secretary for SaskEnergy Incorporated and its subsidiaries since 2006. He received his degree in Business Administration from the University of Regina.

EXECUTIVE COMMITTEE

Back row: **Mark Guillet, Colleen Huber, Robert Haynes, Phil Sandham, Debbie McKague**
Front row: **Greg Mrazek, Dean Reeve, Doug Kelln, Daryl Posehn, Ron Podbielski**

Doug Kelln, President and Chief Executive Officer (CEO)

Mr. Kelln joined the natural gas division of SaskPower in 1982. Since then, he has had increasing responsibilities in the areas of engineering, construction, planning, customer services, distribution operations, marketing and business development within SaskEnergy and TransGas. Mr. Kelln transferred to SaskEnergy when the company was formed in 1988. He was appointed President and CEO of SaskEnergy in 2004, bringing his wide range of company knowledge to the position. He is a graduate of the University of Saskatchewan and earned his Bachelor of Civil Engineering Degree in 1982.

Mark Guillet, Vice President, General Counsel and Corporate Secretary

Mr. Guillet is the Vice President of General Counsel and Corporate Secretary for the Corporation and is responsible for the Legal and Land Departments. He is also the Chief Privacy Officer. Prior to SaskEnergy, he worked for a major Saskatchewan law firm. He joined SaskEnergy as a Contract Lawyer in 1990, and became a full-time employee in 1991. In 1995, Mr. Guillet was appointed to his current position. He is a graduate of the University of Saskatchewan and has experience in corporate, commercial, governance and privacy legal issues.

Robert Haynes, Vice President, Human Resources

After a brief period in private practice in the late 1980s, Mr. Haynes joined the Legal Department with SaskPower as a Solicitor and then Assistant General Counsel & Corporate Secretary. In 1988, he was appointed to the position of General Counsel & Corporate Secretary for SaskEnergy. In 1995, he was appointed to his current position of Vice President of Human Resources. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resources policies and practices and is also responsible for overseeing the Corporation's Safety, Health & Employee Well-being area. Mr. Haynes holds a Bachelor of Administration Degree from the University of Regina, Public Policy and a Bachelor of Laws Degree from the University of Saskatchewan.

Colleen Huber, Vice President, Corporate Support

As Vice President of Corporate Support, Ms. Huber is responsible for corporate technology, facilities, security, vehicles and equipment, inventory and corporate procurement. Ms. Huber also has responsibility for Aboriginal Relations' initiatives within SaskEnergy. She was appointed to her role of Vice President of Corporate Support in 2000 after successfully progressing through various management positions within SaskEnergy and TransGas. Prior to joining SaskEnergy in 1991, Ms. Huber was employed in various roles in the private sector. She is a graduate of the University of Regina.

Debbie McKague, Vice President, TransGas Market Services and System Management

Ms. McKague joined SaskPower in 1976 and transferred to SaskEnergy and TransGas when the companies were formed. Over the years, from SaskPower to SaskEnergy and TransGas, she has progressed through increasing levels of responsibility and is currently Vice President of TransGas Market Services and System Management. Ms. McKague's years of experience in various positions including Accounting, Billing Services, Rates, Gas Supply and most recently TransGas Customer Services, have given her a broad understanding of the natural gas business. In her current role, at which she was appointed in 2007, Ms. McKague is responsible for TransGas Customer Services, Pipeline Control and Planning and TransGas Policies, Rates and Regulations.

Greg Mrazek, Vice President, Finance and Chief Financial Officer

Mr. Mrazek has been employed with SaskEnergy since 1990. As a graduate of the College of Commerce, University of Saskatchewan, he received his Chartered Accountant designation in 1977 following a two-year articling period with Ernst & Young in Calgary. Mr. Mrazek continued in public practice in Calgary until 1981, when he moved to Regina and spent nine years as Controller of CIC. In 1990, Mr. Mrazek joined SaskEnergy as Controller. He was appointed as the Vice President of Finance and Chief Financial Officer in 1999. His areas of responsibility include strategic planning, financial planning, financial reporting, billing services, treasury and corporate accounting.

Ron Podbielski, Executive Director, Corporate Affairs

Mr. Podbielski joined SaskEnergy as Executive Director of Corporate Affairs in 1997 and has been employed in intermediate and senior communications capacities within Government since 1986. His past background includes 10 years at SaskTel where he served as the prime public spokesperson for the Corporation and managed communications issues related to long distance competition and rates. Mr. Podbielski is a graduate of University of Regina's Journalism Program (with Great Distinction).

Daryl Posehn, Senior Vice President, Gas Supply and Business Development

Mr. Posehn began his career in 1976 as a design engineer with SaskPower. He has worked as Vice President and Senior Vice President of TransGas in a number of operations, planning and customer service areas in providing the transmission and storage of natural gas to Saskatchewan. He is currently responsible for

the Corporation's Gas Supply portfolio and Business Development initiatives. Mr. Posehn graduated from the University of Saskatchewan in 1976 with a Bachelor of Science degree in Civil Engineering (with Great Distinction) and received his Professional Engineering designation in 1978.

Dean Reeve, Executive Vice President, SaskEnergy

Mr. Reeve joined SaskEnergy in 1989 after spending five years with a national accounting firm where he obtained his Chartered Accountant designation. He has worked in a number of financial, business development and customer service functions within SaskEnergy and currently is the Executive Vice President responsible for SaskEnergy's distribution utility. In this role, he leads the customer service operation, engineering, construction, business and marketing functions of SaskEnergy. Mr. Reeve is a graduate of the University of Regina where he obtained his Bachelor of Administration (with Distinction) in 1984.

Phil Sandham, Vice President, TransGas Operations and Engineering

Mr. Sandham began his career in 1979 as a design engineer with SaskPower and has since had roles in many areas within TransGas. He brings leadership and experience from his previous senior positions in Transmission Operations, Engineering & Technology and Customer Services, to his current role as Vice President of TransGas Operations and Engineering. He is responsible for ensuring the safe and reliable operation of the transmission system as well as the engineering and construction of new TransGas facilities. He also oversees the environmental initiatives for the Corporation. Mr. Sandham graduated from the University of Saskatchewan with a Bachelor of Science in Civil Engineering in 1979 and received his Professional Engineering designation in 1981.

CORPORATE GOVERNANCE DISCUSSION

Board Stewardship/Mandate

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act and Regulations*. The Board has adopted written Terms of Reference which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, and evaluates the performance of, and monitors, financial results.

Board Composition

SaskEnergy's Board is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints up to 12 members, and designates a Chair and a Vice Chair. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, initiative and sound judgment. There are currently nine people appointed to SaskEnergy's Board of Directors. The Board Chair is Mr. Robert Pletch, Q.C. and the Vice Chair is Ms. Nadine Krenosky.

Independence

The matter of "independence from management" is based upon the definition set by Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors have worked with or for the Corporation, or have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. However, three directors are partners in law firms that have performed legal services for the Corporation in 2008, and are thereby deemed to have a material indirect relationship

with the Corporation under the above standard. Although the Corporation is not in strict compliance with the CSA independence standard, the Corporation's Owner has managed this issue through the development of a Protocol regarding *Lawyers serving on CIC Subsidiary Crown corporation Boards of Directors*. This Protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the Protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the Protocol such as pre-approval of legal services by an independent Board Committee, declarations of conflict, no direct benefit to the director, and restriction of information to that director. The Board has appointed a special committee of independent non-lawyer Board members to review and approve the Corporation's external legal service providers in accordance with this Protocol. The Board Chair, Robert Pletch, Governance Committee Chair, James Rybchuk, and Director, Daryl Labach are lawyers that are subject to this Protocol and indicated by an asterisk to reflect that they are not independent. All other Directors, including the Vice Chair of the Board are independent of management. At each Board and Committee meeting, the Directors meet in-camera without the presence of management.

Committee Mandates and Membership

The Board fulfills its oversight responsibilities for the operation of SaskEnergy by utilizing its five Board Committees. The Terms of Reference or mandates of the Committees are reviewed annually, and updated where required. The Terms of Reference for each Committee establish the constitution, operations and areas of responsibility over which Committees make recommendations to the Board. Full details of the Terms of Reference for each Committee can be found on SaskEnergy's corporate website at www.saskenergy.com/about_saskenergy/governance.asp. Committees have also adopted work calendars to schedule and fulfill the specific tasks and assigned responsibilities to each. Each Committee has the authority to engage and compensate outside advisors that it deems necessary to assist it with its mandate.

Audit and Finance Committee

Chair: Nadine Krenosky

Members: Jim Baker, Robert Pletch*, James Rybchuk*

Except as qualified previously, all members of the Audit and Finance Committee are independent of management. All Committee members are financially literate and one is considered to be a financial expert as those terms are commonly defined with respect to the composition of audit committees.

The Audit and Finance Committee oversees the financial performance and ensures the integrity, effectiveness and accuracy of the Corporation's financial reporting, control systems, risk management and audit functions. The Committee ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall Strategic Plan, annual business plan and public policy objectives. The Committee meets regularly outside the presence of management with the Provincial Auditor and the appointed external auditor, as well as with internal auditors.

Important issues dealt with this year include process reviews for CEO/CFO certification, and preparation for the adoption of International Financial Reporting Standards, as well as controls for natural gas marketing and credit risk loss limits. The Committee also reviewed the implementation of financial instrument standards and fair value adjustments.

Business Development Committee

Chair: Jim Baker

Members: Daryl Labach*, Victor Thomas

This Committee provides guidance that enables SaskEnergy to grow in a more strategic direction. The Committee is comprised of members who assist the Board in oversight of new strategic and tactical investments and business opportunities.

This year, notable work of the Committee included a performance review of existing investments, the potential for their expansion and potential new investments.

Governance Committee
Chair: James Rybchuk*
Members: David Bishop, Nadine Krenosky

This Committee is responsible for matters relating to SaskEnergy's corporate governance regime. It has input into the selection criteria for candidates for Board members, Chairs, and creates profiles of the desired skills, experience and competencies required of directors. An ad hoc Board Committee is created when necessary to identify and recommend to the Board candidates for the position of President and CEO, while the Governance Committee is responsible to oversee that the incumbent fulfills the role set out in the CEO Mandate. This Committee monitors compliance with the Code of Business Conduct and Ethics, and any waivers there from. The Committee is charged with planning, orientation and education programs to keep directors informed and current with business and ethical requirements.

Key work of the Committee in 2008 included the orientation, and business/industry training of seven new directors.

Human Resources/Compensation Committee
Chair: Ralph Hesje
Members: Victor Thomas, Brad Nelson, Robert Pletch*

This Committee is responsible for, and assists the Board in, overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives and conducts a detailed annual assessment of the CEO's performance against them through the Committee Chair. The findings of this evaluation and any changes to the CEO's compensation as a result of the review are recommended to the Board. Further, the Committee recommends to the Board for approval of employee and executive compensation, including measures and targets, taking direction on its mandate through communication with the shareholder, CIC.

Key initiatives reviewed by the Committee in 2008 were those of corporate succession management and management compensation.

Safety, Health and Environment Committee
Chair: David Bishop
Members: Daryl Labach*, Brad Nelson

The mandate for this Committee is to proactively address safety, health and environmental issues ensuring that adequate and effective controls are in place to monitor compliance with regulatory and statutory requirements.

Important issues dealt with this year include environment and sustainability plans, clean air and GHG emission reductions as well as hazardous materials storage and a near miss reporting system.

*Non-independent Board Member

Roles and Responsibilities

The roles and responsibilities of the Chair, Committee Chairs, individual Directors and the President and CEO are set out in written position descriptions and posted on SaskEnergy's website.

Individual Directors have a Position Description that sets out the roles and responsibilities of Directors, including legal requirements, accountability, stewardship, knowledge and education, conflicts, confidentiality, as well as expectations for attendance and review of materials in preparation for meetings.

The CEO's Mandate sets out the principle duties and responsibilities for the President and CEO to meet. These form the goals and objectives of the President and CEO and are incorporated into annual performance objectives against which the Human Resources/Compensation Committee measures the CEO's performance.

To further assist in the delineation of roles and responsibilities assigned to management, the Board

regularly reviews the authority it delegates to management through a series of execution and expenditure authorization policies, considering updates as organizational and business circumstances change. Additional limits are placed upon both management and the Board through legislation requiring Orders in Council, compliance with investment requirements or changes to legislative mandate through *The SaskEnergy Act*. The Board has also approved a Bright Line Mandate which is a decision-making matrix that sets out the ultimate decision-making body on key matters.

Strategic Planning and Reporting

One of the Board's principal duties is to provide leadership in setting the long-range strategic direction and to approve SaskEnergy's overall Strategic Plan. This comprehensive strategic planning process results in the review and approval by the Board of the Corporation's Strategic Plan, annual operating and capital budgets and business plan.

The Board of Directors participates with management to identify and set long-term goals for SaskEnergy through the strategic planning and business planning process. The corporate Strategic Plan involves a five-year rolling projection, updated annually. The Board oversees this process, providing input, guidance, validation, and critical evaluation of the Strategic Plan and its initiatives. The Board continues to provide oversight, support in the implementation of the plans and initiatives and to measure their success.

Each year, the Board and senior management meet jointly to identify strategic risks, and review strategies and measurable targets to gauge performance in managing those risks.

Public Policy Role

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and Regulations. By legislation, CIC is the holding corporation for all of Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in legislation.

As a provincial Crown corporation, SaskEnergy serves a public policy role. Its mission is to develop and deliver safe, reliable natural gas solutions that benefit its customers and Saskatchewan through its team of dedicated employees and business partners. SaskEnergy and its subsidiaries fulfill this mission through the operation of systems for natural gas distribution, transmission, storage, line locating and other related activities to promote conservation and the safe use of natural gas, while contributing to and promoting the economy of the Province. CIC annually approves SaskEnergy's business plan, and sets any other strategic priorities which the Corporation's performance will be measured against by the Owner.

Approach to Governance

Although SaskEnergy is not legally obligated to comply with the CSA governance guidelines, it has benchmarked its governance practices against the CSA National Policy and Instrument Guidelines, guidelines of the Canadian Institute of Chartered Accountants (CICA), observations of the Federal Auditors, Treasury Board and Conference Board of Canada, to address key performance indicators in the measurement of governance. The practices of SaskEnergy are substantially consistent with the foregoing standards as published.

Integrity and Ethics

SaskEnergy promotes a strong culture of ethical business conduct at all levels of the Corporation. The Board has approved and adopted a written Code of Business Conduct and Ethics (the Code) which is applicable to employees, officers and directors of SaskEnergy. The Code, which is designed to promote integrity and deter wrongdoing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information and protection or use of corporate assets, confidentiality, conduct with suppliers and customers, business history, international business, conflicts of interest, compliance with laws and policies and reporting.

To further promote public confidence in the integrity of SaskEnergy and its employees, a Whistleblower Policy was adopted which sets out a formal process for the

reporting, investigation and appropriate follow-up for actual or potential wrongdoing.

Compliance with the Code is verified through mandatory training of all employees, and acknowledgement by an on-line tool. The Code and the Whistleblower Policy are both posted on the internal intranet site for employees, and in 2008 on SaskEnergy's website for public access. A process is also posted on the website for members of the public to contact the Chair of the Governance Committee of the Board in confidence to report any potential violation of the Code or Whistleblower policy.

Management monitors and reports on any issues arising under the Code annually, or the Whistleblower Policy semi-annually, to the Governance and Human Resources/ Compensation Committees who are charged with oversight of compliance with these two policies.

In addition to the Code, SaskEnergy's Directors are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, appointed as Ethics Advisor for this purpose, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. It is also standard procedure to commence all Board and Committee meetings with an agenda item providing Directors with an opportunity to declare any conflicts of interest or any changes to outside employment or directorships they hold, which may create a potential or perceived conflict of interest. In 2008, there were no waivers granted by the Board to any Directors or Officers authorizing non-compliance with these policies.

Risk Identification and Management

SaskEnergy has a risk management process which is designed to identify potential events that may impact SaskEnergy and oversee the management of risk within accepted tolerance levels.

Senior management holds primary responsibility for identifying inherent risks, and designing and implementing initiatives to mitigate them. The Board requires management to assure that risks are managed and that appropriate controls and delegations of authority are in place.

Each year, the Board and senior management independently follow a process led by Internal Audit with the assistance of a consultant to identify and prioritize residual risks. A report is prepared by the Director of Audit Services that summarizes the independent risk assessment findings of both the Board and management. This report is brought forward to be discussed at a Board meeting where senior management and the Board discuss the variations and risk mitigation plans to deal with the residual risks.

The business plan derived from this process addresses and implements solutions for key risks. The Board will monitor the risk management programs and oversee implementation of appropriate systems to manage those risks either directly, or through the Audit and Finance Committee. The Audit and Finance Committee regularly reviews the reports and will discuss significant risk areas with the internal and external auditors.

Integrity of Internal Controls and Management Systems

The Board and Audit and Finance Committee receive reports from, and work closely with, the internal and external auditors to promote financial transparency and ensure/monitor the integrity, effectiveness and adequacy of SaskEnergy's internal controls and management information systems.

As part of the commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation at each meeting. Commodity purchase transactions and credit issues are actively monitored by the Audit and Finance Committee which oversees management's analysis and reporting.

In 2008, SaskEnergy has undertaken an internal controls certification initiative, under the directives of CIC, in preparation for fuller disclosure transparency. The goal of this initiative is to establish that SaskEnergy's internal controls provide reasonable assurance of the accuracy

and quality of information reported in the financial statements and other disclosures. In addition, SaskEnergy, in collaboration with other Crown corporations, is working to adopt International Financial Reporting Standards into its financial reporting, and to assess the impact in doing so on current accounting standards and practices.

The Board oversees the annual audit plan of the appointed external auditor for the audit of the Corporations' annual financial statements, and the annual audit work plan carried out by SaskEnergy's internal audit group. To preserve the independence of the role of the external auditors, the Audit and Finance Committee must pre-approve all non-audit services undertaken by the external auditor over a $3,000 threshold, in accordance with the Non-audit Services Policy.

Succession Planning

A succession plan for key management positions and leadership development initiatives is reviewed annually by the Human Resources/Compensation Committee to ensure continuity and depth throughout the Corporation over the long term. The review identifies employees who are in a position to replace incumbents and those who require further training or development for leadership positions, as well as the adequacy of the succession planning strategy by executive officers. The Board supports SaskEnergy's commitment to the training and development of all employees.

Communications
(with the Shareholder and Stakeholders)

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with its Owner, employees, stakeholders and the public. It complies with the communication requirements set by the shareholder and by statute, in accordance with the Board approved external communications policy. Through the Board Chair, the Board is accountable to the Minister of Crown Corporations. The Minister functions as a communication liaison amongst the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy strives to strike a balance between transparency and maintaining customer confidentiality in matters of communication and disclosure, as an entity subject to the *Freedom of Information and Protection of Privacy Act*. The Corporation is subject to annual disclosure requirement of the Legislative Committee regarding Crown Payee Disclosure on all payments over $50,000 to employees and suppliers, and for all grants, donations, and sponsorships over $5,000. All major public disclosures of corporate performance of the Corporation are subject to prior approval of the Board. Senior executive members of SaskEnergy also appear before Legislative Committees to answer questions relating to the business of the Corporation in preceding years.

To facilitate feedback to and from the statutory Owner, the Board Chair is in communication with CIC, and also participates in a CIC Chairs forum where communication and feedback is provided on their expectations of all Saskatchewan Crown corporations. SaskEnergy's President and CEO regularly provides briefing materials to the Minister of Crown Corporations.

CEO Assessment and Executive Compensation

The President's performance is assessed annually against objectives approved by the Human Resources/Compensation Committee which are related to the CEO position description and aligned with shareholder public policy objectives and the corporate Strategic Plan.

The new governance standard established by the CSA for executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. The mandate for executive compensation for Saskatchewan Crown corporations however, is established and monitored by the Owner, CIC and as such, both the Board of Directors and senior management compensation aligns with the guidelines established by CIC. Given these controls on executive compensation, both the Board and senior management seek to provide information to the Owner, and any management compensation adjustments must fit within the parameters established by the Owner.

The philosophy regarding providing market-based compensation is applicable throughout the Corporation, from senior management downwards: to set performance objectives and expectations at individual, departmental and corporate levels, and to work towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees.

Direct reports of the CEO, including all executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature within 14 days. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan has by policy, required Crown corporations, including SaskEnergy, to file an annual payee list which includes the total compensation of executive members. The report is available on CIC's website at www.cicorp.sk.ca in the Publications section, under 2007 Reports. The Human Resources/Compensation Committee and the Board annually review the details of these compensation payment reports.

Board Renewal and Appointment

Appointment of directors is ultimately made by the Government by Order in Council, upon recommendation of CIC and the Board of Directors. The Board, through the Governance Committee, undertakes an analysis of the skills and experience necessary for the composite blend, and full functioning of the Board and its Committees, and makes nomination recommendations to the Minister of Crown Corporations. The Governance Committee is charged with assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee performs a skills gap analysis intended to assist in achieving a balance of the skills of Board members through the appointment of new members. The Governance Committee also makes annual recommendations to the Board regarding the appropriate structure, size and composition of the Board and its Committees, as well as the required qualifications.

Board Orientation and Education

With the appointment of seven new Directors in 2008, the Governance Committee under its Board of Directors Training Policy approved a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills, abilities and knowledge currency. CIC also facilitates additional director training as part of its Subsidiary Crown Directors Training Program. This year, to gain a better understanding of SaskEnergy's operations, the Board took a site visit and tour to one of the compressor stations and natural gas plants located at Coleville, Saskatchewan. In October, the Directors undertook natural gas industry training with an external consultant. Board members also interact with management and employees attending such functions as long service awards, or touring corporate offices or business units at Board meetings.

Board and Director Performance Assessment

The Governance Committee is responsible for implementing performance reviews for the Board, Committees, Chairs and individual Directors. It surveys the Directors to obtain feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. These results are summarized and reported to the Board as well as to the Board of Directors of CIC. The Governance Committee may utilize the assistance of an external consultant to conduct this task. The Committee also conducts ongoing assessments of individual Directors, their training and skill sets. For 2008, the process consists of a Director's survey on the performance and effectiveness of the Board and Board Chair.

Director Remuneration

Compensation received by directors is fixed by CIC under the *Crown Corporations Act, 1993*. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to such compensation. This Committee receives quarterly reports respecting the remuneration of Directors and reports any anomalies to the Board. Directors are paid an annual retainer for their services on SaskEnergy's Board, as well as a set per diem fee for travel time and attending Committee and Board meetings as follows:

- Chair of the Board: annual retainer of $11,000 and $900 meeting fee,
- Other Directors: annual retainer of $8,000 and $700 meeting fee,
- Chairs of Committees: $800 meeting fee,
- Vice Chair of the Board: receives Chair meeting fee when acting in that capacity,
- Directors also receive reimbursement for their reasonable out-of-pocket expenses, including travel, meals and accommodation, while performing their duties.

Most Board members sit on two committees. There were seven Board meetings and 24 Committee meetings in 2008. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the year each Director was a member of or chaired a Committee, plus per diems) was $207,480, compared to $201,466 in 2007. The total business travel and meeting expenses paid to members of the Board were $19,635, compared to $20,642 in 2007.

Member	Board	Audit	Business Development	Governance	HR/ Compensation	SHE	Total Attendance	Overall %
Heavin[1]	0/0	0/0		0/0			0/0	
Ching[1]	0/0	0/0	0/0		0/0		0/0	
Bellegarde[1]	0/0					0/0	0/0	
Bergbusch[1]	0/0	0/0		0/0			0/0	
Chorlton[1]	0/0		0/0		0/0	0/0	0/0	
Lindgren[1]	0/0			0/0		0/0	0/0	
Norman[1]	0/0		0/0		0/0		0/0	
Weimer[1]	0/0					0/0	0/0	
Pletch[2]	7/7	7/7	3/3		3/3		20/20	100%
Baker[2]	7/7	7/7	5/5				19/19	100%
Bishop[2]	6/7			4/4		4/4	14/15	93%
Hesje[2]	7/7				4/4		11/11	100%
Krenosky[2]	7/7	7/7		3/3	1/1		18/18	100%
Labach[2]	7/7		5/5			4/4	16/16	100%
Nelson[2]	6/7				3/3	3/4	12/14	86%
Rybchuk[2]	7/7	7/7		4/4			18/18	100%
Thomas[2]	7/7		5/5	1/1	4/4		17/17	100%

[1]Directors removed by Order in Council dated February 6, 2008.

[2]Directors appointed by Order in Council dated February 6, 2008.

For purposes of this report, Directors who attended meetings in part were considered to be present.

1. OUR FUTURE

Competitive Rates:

SaskEnergy Commodity	This measure reports the ranking of SaskEnergy's cost of natural gas reflected through its commodity rate relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator.
SaskEnergy Delivery	This measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator.
TransGas Export Rates	As a benchmark measurement on competitive natural gas transportation rates, the TransGas Export Rate is compared to the export rates that are offered by TransCanada Pipeline's Nova Gas Transmission Ltd. (NOVA) subsidiary – a company that provides services in Alberta similar to those provided by TransGas in Saskatchewan. The measure compares the cost of moving natural gas from any receipt point in Saskatchewan to the export market with the cost of moving natural gas from the average receipt point in Alberta to the export market.

GLOSSARY OF KEY SUCCESS MEASURES

Community Investment:

Investment	Three specific measures allow SaskEnergy to create a broad social footprint on the Province: its financial investments or donations; the number and diversity of projects it supports; and the number of communities it impacts by supporting these initiatives. SaskEnergy aims to have a broad-ranging impact on the Province, as evidenced by the targets set for the future. SaskEnergy's financial investment is separated into three budgetary categories: the Share the Warmth Fund which allows the Corporation to help community-based projects with support up to $2,500, a general sponsorship fund and an Aboriginal sponsorship fund. Criteria are based upon five specific focuses: Education and Leadership, Community Initiatives, Saskatchewan Pride, Environmental Stewardship and Saskatchewan Growth. This measure tracks the financial investment SaskEnergy has made through the categories described above. The investment number reflects cash donations and sponsorships only and does not include in-kind contributions.
Projects Supported	This measure tracks the number of projects, events and programs that have been undertaken by the Corporation.
Communities Impacted	SaskEnergy's community investment activities are also measured by the number of urban and rural locations supported each year. Being Saskatchewan's natural gas provider, serving more than 92 per cent of the population, the Corporation strongly believes that its sponsorships and community investments should be directly targeted to the places where its stakeholders live. Year over year, SaskEnergy has targeted between 250 and 300 communities to support.
Percentage of Goods and Services Sourced in Saskatchewan	SaskEnergy tracks the percentage of goods and services it sources from Saskatchewan suppliers out of the total goods and services acquired. SaskEnergy's goal has been to source goods and services from within Saskatchewan wherever possible, with the expectation that certain necessary goods and services are not available within the Province. This measure is not based on total corporate expenditures, but rather focuses on purchases that are completed by the Purchasing department.
Total Contracts – Percentage of Aboriginal Labour Content	This measure tracks the percentage of Aboriginal labour content in the Corporation's labour service contracts and supplier alliance agreements managed by the Purchasing department.

Environmental:

Investment in Environmental Programs	This measure tracks the level of investment that SaskEnergy makes in environmental programs. The level of spending is affected by the nature and intensity of activities pursued under various environmental programs and initiatives. A brief description of the major environmental programs that SaskEnergy is involved with is provided below. 1. Pipeline and Facility Reclamation – Perform remedial action on pipeline projects to return the condition of the right-of-way to as good as or better than pre-construction. 2. Hazardous Material Storage – Bring and maintain TransGas' facilities to a high standard of integrity by replacing all existing storage tanks and facilities that need upgrading with the latest technology. 3. Site Remediation – Maintain and restore corporate facilities to a productive and safe state by establishing plans and resources to eliminate environmental impacts. 4. Pollution Prevention – Prevent the release of hazardous substances into the environment from facilities and equipment as a result of process spills, vessels, and point source emissions. 5. Air Quality and GHG Initiative – Sustain the initiative by SaskEnergy/TransGas to reduce air emissions such as Oxides of Nitrogen (NOx), Benzene, Toluene, Ethylbenzene, and Xylene compounds (BTEX compounds), and GHGs through combustion efficiency improvements and emission control technologies. 6. Leading Edge Research – Invest in innovative research to reduce the duration and cost of remedial efforts and improve the state of environmental management by the Corporation.
Number of Programs Undertaken	This measure records the number of initiatives that are undertaken by the Corporation. This measure provides a further activity measure to express the intensity of the environmental initiatives to accompany the dollar investment measure. Examples of programs that would be included in this measure are contained in the previous description.
Reduction in Energy Consumption	This initiative consists of corporate energy efficiency and GHG emissions reduction efforts. SaskEnergy has planned activities to realize electrical energy savings at corporate facilities of 800,000 kWh which translates into three Terajoules (TJ). In addition, the Corporation will reduce GHG emissions by 6,200 tonnes of CO_2e, which translates into 17 TJ in energy savings. These two initiatives are anticipated to result in a combined reduction of 20 TJ of energy that would otherwise be consumed or lost into the environment.
Fund and Administer Customer Energy Efficiency Programs	This measure reports the annual expenditures the Corporation has incurred in supporting customer energy efficiency programs. SaskEnergy is administering and delivering several energy efficiency initiatives for the Province of Saskatchewan.
Number of Customers Impacted	This measure tracks the number of customers benefitting from customer energy efficiency programs provided directly by SaskEnergy, as well as programs utilizing Federal/Provincial funding that are administered by SaskEnergy.

GLOSSARY OF KEY SUCCESS MEASURES

Governance:

Governance	The governance measure reports the degree of compliance that SaskEnergy maintains with respect to the Canadian Securities Administrator Corporate Governance Guidelines.

Financial Health:

Debt/Equity Ratio	This measure is calculated by dividing total net debt (short- and long-term) by the sum of total net debt plus total Province of Saskatchewan's equity.
Rate of Return on Equity	The rate of return on equity is measured by dividing the consolidated net income, before the effects of fair value adjustments, by the Province of Saskatchewan's equity as at December 31.
Net Income	Net income refers to the total consolidated net income, before the effects of fair value adjustments.
Capital Investment	This measure reports the consolidated capital expenditures that result from regular core operations (net of customer capital contributions) plus capital spending associated with business development and external investments.

2. OUR GROWTH

Incremental Net Income from Business Development	This measure tracks the annual net income generated from new business development initiatives as well as net income generated from the existing investments SaskEnergy has established through SaskEnergy International Incorporated and SaskEnergy Nova Scotia Holdings Ltd.
Number of Business Opportunities Considered	This measure indicates the number of business development opportunities that are actively under consideration each year. These represent opportunities that business development staff will dedicate resources, time and attention to investigate and assess.
Number of Business Opportunities Under Development	This measure records the number of opportunities that have been approved by the executive and Board to proceed each year. These projects will likely be in either negotiation or development stages.
Direct Jobs Created	This measure tracks the approximate number of jobs created from business development activities. It is estimated based on the historical relationship between capital spending and manpower requirements for capital projects as well as on the anticipated growth required in corporate resourcing to help manage and conduct business development activities. It includes only direct jobs created from the development and ongoing operational aspects of the project.

3. OUR SERVICE

Reliability Index:

Reliability – SaskEnergy	The reliability measure for SaskEnergy is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a 60 per cent weighting for lag indicators and a 40 per cent weighting for lead indicators. The lag indicators focus on system outages and provide reliability ratings based on the causes for the outage (for example – system failure, SaskEnergy operator error, or caused by third party) as well as the impacts of the outage in terms of number of customers impacted, duration of the outage and the costs to restore service. The lead indicators provide ratings based upon the percentage of planned maintenance completed and the percentage of training and job observations completed.
Reliability – TransGas	The reliability measure for TransGas is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a marginally higher weighting for lead indicators than lag indicators. The lead indicators provide ratings based upon the percentage of planned maintenance completed, the percentage reliability of critical compressor units and the percentage of public awareness contacts completed. The lag indicators focus on unplanned outages that affect customers, transmission line hits and the percentage of service availability for receipt, intra delivery and storage services.
Customer Satisfaction – SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed that scored their overall satisfaction with SaskEnergy's service a 5, 6 or 7 out of a total of 7, (a score of 7 represents an excellent score). Positive responses such as these indicate that customers view SaskEnergy's service positively and provide strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from customer surveys conducted by independent market research firms.
Customer Satisfaction – TransGas	This number is derived from an annual Internet-based survey conducted with all TransGas customers. The Internet method is used because all customers utilize electronic business tools to conduct business with TransGas. This year, customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 16 questions which in turn are subdivided to gain detailed feedback on various aspects of the service being evaluated. Questions regarding staff utilize four factors to gauge customer satisfaction. These are: Empowerment, Responsiveness, Knowledge and Friendliness. An average is taken on the responses to all 16 questions and reported as a percentage.
Respond Within One Hour to Safety Incidents	This measure reports the percentage for which the average response time to safety-related calls and incidents occurs within one hour.

GLOSSARY OF KEY SUCCESS MEASURES

4. OUR PEOPLE

Physical Safety:

Lost Time Frequency Rate	The lost time frequency rate measures the frequency in which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury requiring medical attention and working time is lost following the day of the injury. The formula to calculate the measure is as follows: Lost Time Frequency Rate = number of lost time injuries x 200,000[1] ÷ total hours worked [1] The 200,000 is the standard duration calculated as 100 workers working 40 hours per week for 50 weeks of the year.
Preventable Collision Frequency Rate	The preventable collision frequency rate expresses the frequency of preventable collisions and normalizes the result to enable equitable comparisons with other companies of different size and scale of operations. The formula to calculate the measure is as follows: Preventable Collision Frequency Rate = number of preventable collisions x 1,000,000[2] ÷ total kilometres driven [2] The 1,000,000 is the given standard used by the Canadian Gas Association and Canadian Energy Pipeline Association to facilitate company comparisons.
Medical Aid Frequency Rate	This measure records the frequency of injuries that require medical attention and normalizes the results so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but no working time is lost other than that lost on the day of the injury. The formula to calculate the measure is as follows: Medical Aid Frequency Rate = number of medical aids x 200,000 ÷ total hours worked

Employee Satisfaction:

Employee Satisfaction	The employee satisfaction measure is a composite measure, which is designed to assess SaskEnergy/TransGas employees' overall satisfaction with working at SaskEnergy/TransGas through the Hay Group Survey. The measure incorporates employees' opinions on a number of areas including satisfaction with compensation and benefits, job opportunities, work/life balance, and developmental opportunities within SaskEnergy/TransGas. The intent behind the measure is to assess the extent to which employees will be prepared to exercise discretionary effort while employed at SaskEnergy. The data for this measure will be obtained through both internal and external employee surveys.

Representative Workforce:

Composition of the Workforce	The representative workforce measures provide quantitative data for the employment of the four equity groups recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. These four groups include Aboriginals, women, people with disabilities and visible minorities. SaskEnergy/TransGas also tracks the percentage of "youth" in the workforce, which is defined as employees that are 30 years of age or under. The measure is calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce.
Diversity Hires	This measure records the percentage of new hires that are from the four equity groups discussed above.

SUPPLEMENTARY INFORMATION

GLOSSARY OF NATURAL GAS MEASUREMENTS

Joule (J) – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

Gigajoule (GJ) – a measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. A typical home uses about 120 GJ of natural gas per year.

Terajoule (TJ) – a unit of energy equivalent to 1,000 GJ.

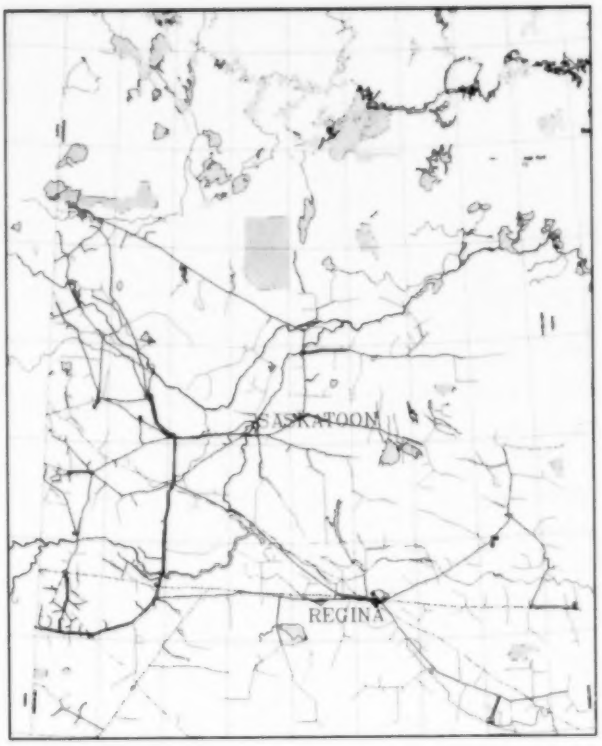
Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

Cubic metre (m^3) – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses about 3,550 m^3 of natural gas per year.

NATURAL GAS VOLUME EQUIVALENTS AT NORMAL ATMOSPHERIC PRESSURE

- One Gigajoule (GJ) is the volume of natural gas required to fill an 11 foot by 11 foot by 8 foot room (approximately 1,000 cubic feet).
- One Terajoule (TJ) of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One Petajoule (PJ) is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre, formerly known as the SkyDome (approximately 1,000,000,000 cubic feet).

SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES



SaskEnergy
1000-1777 Victoria Avenue, Regina, Saskatchewan, S4P 4K5
saskenergy.com